UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

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

For the fiscal year ended December 31, 2013

OR

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

OR

☐ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report _____

Commission file number 001-35773

RedHill Biopharma Ltd.
(Exact name of Registrant as specified in its charter)

N/A
(Translation of Registrant's name into English)

Israel
(Jurisdiction of incorporation or organization)

21 Ha'arba'a Street, Tel Aviv 64739, Israel
(Address of principal executive offices)

Ori Shilo, Deputy Chief Executive Officer Finance and Operations
21 Ha'arba'a Street, Tel Aviv 64739, Israel
Tel: 972-3-541-3131; Fax: 972-3-541-3144
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

Title of class	Name of each exchange on which registered
American Depositary Shares, each representing ten Ordinary Shares (1)	Nasdaq Capital Market
Ordinary Shares, par value NIS 0.01 per share (2)	Nasdaq Capital Market

(1) Evidenced by American Depositary Receipts.
(2) Not for trading, but only in connection with the listing of the American Depositary Shares.

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

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 64,399,692

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

Yes ☐ No ☒

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act 1934.

Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

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

U.S. GAAP ☐

International Financing Reporting Standards as issued by the International Accounting Standards Board ☒

Other ☐

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

Item 17 £ Item 18 £

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

We are an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, and, as such, may elect to comply with certain reduced public company reporting requirements.

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Unless the context otherwise requires, all references to "RedHill," "we," "us," "our," the "Company" and similar designations refer to RedHill Biopharma Ltd. The term "NIS" refers to New Israeli Shekels, the lawful currency of the State of Israel, the terms "dollar", "US$" or "$" refer to U.S. dollars, the lawful currency of the U.S. Our functional and presentation currency is the U.S. dollar. Foreign currency transactions in currencies other than the U.S. dollar are translated in this Annual Report into U.S. dollars using exchange rates in effect at the date of the transactions.

All references to the term "therapeutic candidates" includes both pharmaceuticals and programs related to their development, such as diagnostics and devices.

FORWARD-LOOKING STATEMENTS

Some of the statements under the sections entitled "Item 3. Key Information — Risk Factors," "Item 4. Information on the Company," "Item 5. Operating and Financial Review and Prospects" and elsewhere in this Annual Report may include forward looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. In some cases, you can identify forward-looking statements by terms including "anticipates", "believes", "could", "estimates", "expects", "intends", "may", "plans", "potential", "predicts", "projects", "should", "will", "would", and similar expressions intended to identify forward-looking statements. Forward-looking statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties. In addition, the sections of this Annual Report entitled "Item 4. Information on the Company" contain information obtained from independent industry and other sources that we have not independently verified. You should not put undue reliance on any forward-looking statements. Unless we are required to do so under U.S. federal securities laws or other applicable laws, we do not intend to update or revise any forward-looking statements.

Factors that could cause our actual results to differ materially from those expressed or implied in such forward-looking statements include, but are not limited to

- the initiation, timing, progress and results of our research, manufacturing, preclinical studies, clinical trials, and other therapeutic candidate development efforts, as well as the extent and number of additional studies that we may be required to conduct;
- our ability to advance our therapeutic candidates into clinical trials or to successfully complete our preclinical studies or clinical trials;
- our receipt of regulatory clarity and approvals for our therapeutic candidates, and the timing of other regulatory filings and approvals;
- the research, manufacturing, clinical development, commercialization, and market acceptance of our therapeutic candidates;
- our ability to establish and maintain corporate collaborations;
- the interpretation of the properties and characteristics of our therapeutic candidates and of the results obtained with our therapeutic candidates in research, manufacturing, preclinical studies or clinical trials;
- the implementation of our business model, strategic plans for our business and therapeutic candidates;
- the scope of protection we are able to establish and maintain for intellectual property rights covering our therapeutic candidates and our ability to operate our business without infringing the intellectual property rights of others;
- estimates of our expenses, future revenues capital requirements and our needs for additional financing;
- competitive companies, technologies and our industry; and
- the impact of the political and security situation in Israel on our business.

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following table sets forth our selected financial data, which is derived from our financial statements prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, or IFRS. We have derived the selected financial data as of December 31, 2012 and 2013 and for the years ended December 31, 2011, 2012 and 2013 from our audited financial statements included elsewhere in this Annual Report on Form 20-F. We have derived the selected financial data as of December 31, 2009, 2010 and 2011 and for the period from August 3, 2009 (date of incorporation) through December 31, 2009 and for the year ended December 31, 2010 from our audited financial statements not included in this Annual Report. You should read this selected financial data in conjunction with, and it is qualified in its entirety by, our historical financial information and other information provided in this Annual Report including "Item 5. Operating and Financial Review and Prospects" and our financial statements and related notes appearing elsewhere in this Annual Report.

	As of December 31				Period from August 3, 2009 to December 31
	2013	2012	2011	2010	2009
	(U.S. dollar in thousands) (audited)				
Statement of Comprehensive Loss					
Revenues	12	16	23	-	-
Research and development expenses	(8,100)	(6,455)	(5,414)	(736)	(86)
General and administrative expenses	(2,684)	(2,601)	(2,482)	(518)	(43)
Other income (expenses)	-	-	-	(479)	28
Operating loss	(10,772)	(9,040)	(7,873)	(1,733)	(101)
Financial income	158	197	570	65	2
Financial expenses	(14)	(1,483)	(8,200)	(876)	(6)
Financial income (expenses) – net	144	(1,286)	(7,630)	(811)	(4)
Loss and comprehensive loss	(10,628)	(10,326)	(15,503)	(2,544)	(105)
Loss per ordinary share – basic and diluted (in U.S. dollars)	(0.17)	(0.20)	(0.32)	(0.27)	(0.01)
Number of ordinary shares used in computing loss per ordinary share	62,379,171	52,595,128	48,087,362	9,600,000	8,896,000

	As of December 31				
	2013	2012	2011	2010	2009
	(U.S. dollars in thousands) (audited)				
Balance Sheet Data:					
Cash and short term investments	12,113	18,365	18,647	9,152	782
Working capital	10,186	17,485	18,223	9,161	770
Total assets	14,340	20,096	20,186	10,510	891
Total liabilities	2,415	1,078	1,399	12,104	21
Accumulated deficit	(33,260)	(23,887)	(15,209)	(2,569)	(105)
Equity	11,925	19,018	18,787	(1,594)	870

B. **Capitalization and Indebtedness**

Not applicable.

C. **Reasons for the Offer and Use of Proceeds**

Not applicable.

D. **Risk Factors**

You should carefully consider the risks we describe below, in addition to the other information set forth elsewhere in this Annual Report, including our financial statements and the related notes beginning on page F-1, before deciding to invest in our ordinary shares or our American Depositary Shares. These material risks could adversely impact our results of operations, possibly causing the trading price of our ordinary shares and American Depositary Shares to decline, and you could lose all or part of your investment.

Risks Related to Our Financial Condition and Capital Requirements

We are a clinical development stage biopharmaceutical company with a history of operating losses. We expect to incur additional losses in the future and may never be profitable.

We are a clinical development stage biopharmaceutical company. Since our incorporation in 2009, we have been focused on acquiring and in-licensing therapeutic products and performing research and development. All of our therapeutic candidates are in the clinical development stage, and none has been approved for marketing or is being marketed or commercialized. Most of our therapeutic candidates require additional clinical trials before we can obtain the regulatory approvals in order to initiate commercial sales. We have incurred losses since inception, principally as a result of research and development and general administrative expenses in support of our operations. We experienced net losses of approximately $10.6 million in 2013, $10.3 million in 2012 and $15.5 million in 2011. As of December 31, 2013, we had an accumulated deficit of approximately $33.2 million. We may incur significant additional losses as we continue to focus our resources on prioritizing, selecting and advancing our therapeutic candidates. Our ability to generate revenue and achieve profitability depends mainly upon our ability, alone or with others, to successfully develop our therapeutic candidates, obtain the required regulatory approvals in various territories and commercialize our therapeutic candidates. We may be unable to achieve any or all of these goals with regard to our therapeutic candidates. As a result, we may never be profitable or achieve significant and/or sustained revenues.

Our limited operating history makes it difficult to evaluate our business and prospects.

We have a limited operating history and our operations to date have been limited primarily to acquiring and in-licensing therapeutic candidates, research and development, raising capital and recruiting scientific and management personnel and third party partners. We have not yet demonstrated an ability to commercialize or obtain regulatory approval for any of our therapeutic candidates. Consequently, any predictions about our future performance may not be accurate, and you may not be able to fully assess our ability to complete development and/or commercialize our therapeutic candidates, obtain regulatory approvals, or achieve market acceptance or favorable pricing for our therapeutic candidates.

Our current working capital is not sufficient to complete our research and development with respect to all of our therapeutic candidates. We will need to raise additional capital to achieve our strategic objectives of acquiring, developing and commercializing therapeutic candidates, and our failure to raise sufficient capital would significantly impair our ability to fund our operations, develop our therapeutic candidates, attract development and/or commercial partners and retain key personnel.

We have funded our operations primarily through public and private offerings of our securities. We plan to fund our future operations through commercialization and out-licensing of our therapeutic candidates and raising additional capital. As of December 31, 2013, we had cash and short term investments of approximately $12.1 million, and as of February 23, 2014, we had cash and short term investments of approximately $34.2 million. These amounts are not sufficient to complete the research and development of all of our therapeutic candidates, and accordingly we may need to raise additional capital in the coming year.

Our business presently generates an insignificant amount of revenues, and given that we plan to continue expending substantial funds in research and development, including clinical trials, we will need to raise additional capital in the future through either debt or equity financing or pursuant to development or commercialization agreements with third parties with respect to particular therapeutic candidates. However, we cannot be certain that we will be able to raise capital on commercially reasonable terms or at all, or that our actual cash requirements will not be greater than anticipated. We may have difficulty raising needed capital or securing a development or commercialization partner in the future as a result of, among other factors, our lack of revenues from commercialization of the therapeutic candidates, as well as the inherent business risks associated with our company and present and future market conditions. In addition, global and local economic conditions may make it more difficult for us to raise needed capital or secure a development or commercialization partner in the future and may impact our liquidity. If we are unable to obtain future financing, we may be forced to delay, reduce the scope of, or eliminate one or more of our research, development or commercialization programs related to our therapeutic candidates, any of which may have material adverse effect on our business, financial condition and results of operations. Moreover, to the extent we are able to raise capital through the issuance of debt or equity securities, it could result in substantial dilution to existing stockholders.

Our long term capital requirements are subject to numerous risks.

Our long term capital requirements are expected to depend on many potential factors, including, among others:

- the number of therapeutic candidates in development;
- the regulatory clarity and path of each of our therapeutic candidates;
- the progress, success and cost of our clinical trials and research and development programs including manufacturing;
- the costs, timing and outcome of regulatory review and obtaining regulatory clarity and approval of our therapeutic candidates and addressing regulatory and other issues that may arise post-approval;
- the costs of enforcing our issued patents and defending intellectual property-related claims;
- the costs of manufacturing, developing sales, marketing and distribution channels;
- our ability to successfully commercialize our therapeutic candidates, including securing commercialization agreements with third parties and favorable pricing and market share; and
- our consumption of available resources more rapidly than currently anticipated, resulting in the need for additional funding sooner than anticipated.

Risks Related to Our Business and Regulatory Matters

If we and/or our commercialization partners are unable to obtain U.S. Food and Drug Administration and/or other foreign regulatory authority clarity and approval for our therapeutic candidates, we and/or our commercialization partners will be unable to commercialize our therapeutic candidates.

To date, we have not marketed, distributed or sold any therapeutic candidate or other product. Currently, we have six therapeutic candidates in various programs and clinical development stages, "RHB-101" for the treatment of hypertension, heart failure and left ventricular dysfunction; "RHB-102" for the prevention of chemotherapy and radiotherapy induced nausea and vomiting and potentially for other diseases; "RHB-103" for the treatment of acute migraine headaches; "RHB-104" for the treatment of Crohn's disease and potentially other diseases; "RHB-105" for the eradication of *H. Pylori* infection; and "RHB-106" for bowel preparation prior to abdominal procedures such as surgery or colonoscopy. Our therapeutic candidates are subject to extensive governmental laws, regulations and guidelines relating to development, clinical trials, manufacturing and commercialization of drugs. We may not be able to obtain marketing approval for any of our therapeutic candidates in a timely manner or at all.

Any material delay in obtaining, or the failure to obtain, required regulatory clarity and approvals will increase our costs and materially and adversely affect our ability to generate future revenues. Any regulatory approval to market a therapeutic candidate may be subject to limitations on the indicated uses for marketing the therapeutic candidate or may impose restrictive conditions of use, including cautionary information, thereby limiting the size of the market for the therapeutic candidate. We also are, and will be, subject to numerous regulatory requirements from both the U.S. Food and Drug Administration and foreign state agencies that govern the conduct of clinical trials, manufacturing and marketing authorization, pricing and third-party reimbursement. Moreover, approval by one regulatory authority does not ensure approval by other regulatory authorities in separate jurisdictions. Each jurisdiction may have different approval processes and may impose additional testing, development and manufacturing requirements for our therapeutic candidates than other jurisdictions. Additionally, the U.S. Food and Drug Administration or other foreign regulatory bodies may change their approval policies or adopt new laws, regulations or guidelines in a manner that delays or impairs our ability to obtain the necessary regulatory approvals to commercialize our therapeutic candidates.

Clinical trials and related non-clinical studies may involve a lengthy and expensive process with an uncertain outcome, and results of earlier studies and trials may not be predictive of future trial results. We and/or commercialization partners will not be able to commercialize our therapeutic candidates without completing such trials.

We have limited experience in conducting and managing the clinical trials that are required to commence commercial sales of our therapeutic candidates. Clinical trials and related non-clinical studies are expensive, complex, can take many years and have uncertain outcomes. We cannot predict whether we, independently or through third parties, will encounter problems with any of the completed, ongoing or planned clinical trials that will cause delays, including suspension of the clinical trial, or delay of data analysis or release of the final report. The clinical trials of our therapeutic candidates may take significantly longer to complete than is estimated. Failure can occur at any stage of the testing and we may experience numerous unforeseen events during, or as a result of, the clinical trial process that could delay or prevent commercialization of our current or future therapeutic candidates.

In connection with the clinical trials for our therapeutic candidates and other therapeutic candidates that we may seek to develop in the future, either on our own or through licensing or partnering agreements, we face various risks and uncertainties, including but not limited to:

- delays in securing clinical investigators or trial sites for the clinical trials;
- delays in receiving import or other government approvals to ensure appropriate drug supply;
- delays in obtaining institutional review board and other regulatory approvals to commence a clinical trial;
- negative or inconclusive results from clinical trials;
- the U.S. Food and Drug Administration or other foreign regulatory authorities may disagree with the number, design, size, conduct or implementation of our clinical studies;
- the U.S. Food and Drug Administration or other foreign regulatory authorities may require us to conduct additional clinical trials and/or studies;
- an inability to monitor patients adequately during or after treatment;
- problems with investigator or patient compliance with the trial protocols;

- a therapeutic candidate may not prove safe or efficacious; there may be unexpected or even serious adverse events and side effects from the use of a therapeutic product;
- the results with respect to any therapeutic candidate may not confirm the positive results from earlier preclinical studies or clinical trials;
- the results may not meet the level of statistical significance required by the U.S. Food and Drug Administration or other foreign regulatory authorities;
- the results will justify only limited and/or restrictive uses, including the inclusion of warnings and contraindications, which could significantly limit the marketability and profitability of the therapeutic candidate;
- the clinical trials may be delayed or not completed due to the failure to recruit suitable candidates or if there is a lower rate of suitable candidates than anticipated or if there is a delay in recruiting suitable candidates; and
- changes to the current regulatory requirements related to clinical trials which can delay, hinder or lead to unexpected costs in connection with our receiving the applicable regulatory approvals.

A number of companies in the pharmaceutical and biotechnology industries, including those with greater resources and experience than us, have suffered significant setbacks in advanced clinical trials, even after seeing promising results in earlier clinical trials. As such, despite the results reported in earlier clinical trials of our therapeutic candidates, we do not know if the clinical trials we conduct will demonstrate adequate efficacy and safety sufficient to obtain regulatory approval to market our therapeutic candidates. If any of the clinical trials of any therapeutic candidate do not produce favorable results, our ability to obtain regulatory approval for the therapeutic candidate may be adversely impacted, which will have a material adverse effect on our business, financial condition and results of operations.

If we do not establish collaborations for our therapeutic candidates or otherwise raise substantial additional capital, we will likely need to alter our development and any commercialization plans.

Our drug development programs and the potential commercialization of our therapeutic candidates will require additional cash to fund expenses. As such, our strategy includes selectively partnering or collaborating with multiple pharmaceutical and biotechnology companies to assist us in furthering development and/or potential commercialization of our therapeutic candidates, in some or all jurisdictions. Although we are currently aware of numerous potential third party partners for the development or commercialization of our therapeutic candidates, we may not be successful in entering into new collaborations with third parties on acceptable terms, or at all. In addition, if we fail to negotiate and maintain suitable development and/or commercialization agreements, we may have to limit the size or scope of our activities or we may have to delay one or more of our development or commercialization programs. Any failure to enter into development or commercialization agreements with respect to the development, marketing and commercialization of any therapeutic candidate or failure to develop, market and commercialize such therapeutic candidate independently will have an adverse effect on our business, financial condition and results of operation.

Any collaborative arrangements that we establish may not be successful or we may otherwise not realize the anticipated benefits from these collaborations. We do not control third parties with whom we have or may have collaborative arrangements, and we rely on them to achieve results which may be significant to us. In addition, any future collaboration arrangements may place the development and commercialization of our therapeutic candidates outside our control, may require us to relinquish important rights or may otherwise be on terms unfavorable to us.

Each of our collaborative arrangements requires us to rely on external consultants, advisors, and experts for assistance in several key functions, including clinical development, manufacturing, regulatory, market research, intellectual property and commercialization. We do not control these third parties, but we rely on them to achieve results which may be significant to us. Relying upon collaborative arrangements to develop and commercialize our therapeutic candidates subjects us to a number of risks, including but not limited to:

- we may not be able to control the amount and timing of resources that our collaborators may devote to our therapeutic candidates;
- should a collaborator fail to comply with applicable laws, rules, or regulations when performing services for us, we could be held liable for such violations;
- our collaborators may experience financial difficulties or changes in business focus;
- our collaborators partners may fail to secure adequate commercial supplies of our therapeutic candidates upon marketing approval, if at all;
- our collaborators partners may have a shortage of qualified personnel;
- we may be required to relinquish important rights, such as marketing and distribution rights;

- business combinations or significant changes in a collaborator's business strategy may adversely affect a collaborator's willingness or ability to complete its obligations under any arrangement;
- under certain circumstances, a collaborator could move forward with a competing therapeutic candidate developed either independently or in collaboration with others, including our competitors; and
- collaborative arrangements are often terminated or allowed to expire, which could delay the development and may increase the cost of developing our therapeutic candidates.

If any of these scenarios materialize, they could have adverse effect on our business, financial condition or results of operations.

We rely on third parties to conduct our clinical trials and related non-clinical studies, and those third parties may not perform satisfactorily, including, but not limited to, failing to meet established deadlines for the completion of such clinical trials.

We do not have the ability to independently conduct clinical trials and related non-clinical studies for our product candidates, and we rely on third parties, such as contract research organizations, medical institutions, contract laboratories, development and commercialization partners, clinical investigators and independent study monitors to perform this function. Our reliance on these third parties for clinical development activities reduces our control over these activities. Furthermore, these third parties may also have relationships with other entities, some of which may be our competitors. Although we have, in the ordinary course of business, entered into agreements with such third parties, we continue to be responsible for confirming that each of our clinical trials is conducted in accordance with its general investigational plan and protocol. Moreover, the U.S. Food and Drug Administration requires us to comply with regulations and standards, commonly referred to as good clinical practices, for conducting, recording and reporting the results of clinical trials to assure that data and reported results are credible and accurate and that the trial participants are adequately protected. Our reliance on third parties does not relieve us of these responsibilities and requirements. To date, we believe our contract research organizations and other similar entities with which we are working have performed well. However, if these third parties do not successfully carry out their contractual duties or meet expected deadlines, we may be required to replace them. Although we believe that there are a number of other third-party contractors we could engage to continue these activities, it may result in a delay of the affected trial and additional costs. Accordingly, we may be delayed in obtaining regulatory approvals for our therapeutic candidates and may be delayed in our efforts to successfully commercialize our therapeutic candidates for targeted diseases.

In addition, our ability to bring our therapeutic candidates to market depends on the quality and integrity of data that we present to regulatory authorities in order to obtain marketing authorizations. Although we attempt to audit and control the quality of third party data, we cannot guarantee the authenticity or accuracy of such data, nor can we be certain that such data has not been fraudulently generated.

If third parties do not manufacture our therapeutic candidates in sufficient quantities, in the required timeframe, and at an acceptable cost, clinical development and commercialization of our therapeutic candidates would be delayed.

We do not currently own or operate manufacturing facilities, and we rely, and expect to continue to rely, on third parties to manufacture clinical and commercial quantities of our therapeutic candidates. Our reliance on third parties includes our reliance on them for quality assurance related to regulatory compliance. Our current and anticipated future reliance upon others for the manufacture of our therapeutic candidates may adversely affect our future profit margins, if any, and our ability to develop therapeutic candidates and commercialize any therapeutic candidates on a timely and competitive basis.

We may not be able to maintain our existing or future third party manufacturing arrangements on acceptable terms, if at all. If for some reason our manufacturers do not perform as agreed or expected, we may be required to replace them. Although we are not substantially dependent upon our existing manufacturing agreements since we could replace them with other third party manufacturers, we may incur added costs and delays in identifying, engaging, qualifying and training any such replacements.

In October 2012, we and our clinical manufacturer for RHB-104 mutually terminated our relationship after we concluded that another manufacturer would be better suited to conduct the scale up required to produce our clinical trial material in sufficient quantities and fulfill our timeline. It is possible that in the future we may be required to terminate other third party manufacturers, which may cause us to incur additional costs or delays.

We rely on third party contract vendors to manufacture and supply us with high quality API, or active pharmaceutical ingredients, in the quantities we require on a timely basis.

We currently do not manufacture any API ourselves. Instead, we rely on third-party vendors for the manufacture and supply of our APIs that are used to formulate our therapeutic candidates. While there are many potential API suppliers in the market, if these suppliers are incapable or unwilling to meet our current or future needs on acceptable terms or at all, we could experience a delay in conducting additional clinical trials of our therapeutic candidates and incur additional costs.

While there may be several alternative suppliers of API in the market, we have not conducted extensive investigations into the quality or availability of their APIs. As a result, we can provide no assurances that supply sources will not be interrupted from time to time. Changing API suppliers or finding and qualifying new API suppliers can be costly and take a significant amount of time. Many APIs require significant lead time to manufacture. There can also be challenges in maintaining similar quality or technical standards from one manufacturing batch to the next.

If we are not able to find stable, affordable, high quality, or reliable supplies of our API, we may not be able to produce enough supplies of our therapeutic candidates, which could affect our business, financial condition or results of operation.

We anticipate continued reliance on third-party manufacturers if we are successful in obtaining marketing approval from the U.S. Food and Drug Administration and other regulatory agencies for any of our therapeutic candidates.

To date, our therapeutic candidates have been manufactured in relatively small quantities for preclinical testing and clinical trials by third-party manufacturers. If the U.S. Food and Drug Administration or other regulatory agencies approve any of our therapeutic candidates for commercial sale, we expect that we would continue to rely, at least initially, on third-party manufacturers to produce commercial quantities of our approved therapeutic candidates. These manufacturers may not be able to successfully increase the manufacturing capacity for any of our approved therapeutic candidates in a timely or economic manner, or at all. Significant scale-up of manufacturing may require additional validation studies, which the U.S. Food and Drug Administration must review and approve. If they are unable to successfully increase the manufacturing capacity for a therapeutic candidate, or we are unable to establish our own manufacturing capabilities, the commercial launch of any approved products may be delayed or there may be a shortage in supply.

We and our third-party manufacturers are, and will be, subject to regulations of the U.S. Food and Drug Administration and other foreign regulatory authorities.

We and our contract manufacturers are, and will be, required to adhere to laws, regulations and guidelines of the U.S. Food and Drug Administration or other foreign regulatory authorities setting forth current good manufacturing practices. These laws, regulations and guidelines cover all aspects of the manufacturing, testing, quality control and recordkeeping relating to our therapeutic candidates. We and our manufacturers may not be able to comply with applicable laws, regulations and guidelines. We and our manufacturers are and will be subject to unannounced inspections by the U.S. Food and Drug Administration, state regulators and similar foreign regulatory authorities outside the U.S. Our failure, or the failure of our third party manufacturers, to comply with applicable laws, regulations and guidelines could result in the imposition of sanctions on us, including fines, injunctions, civil penalties, failure of regulatory authorities to grant marketing approval of our therapeutic candidates, delays, suspension or withdrawal of approvals, license revocation, seizures or recalls of our therapeutic candidates, operating restrictions and criminal prosecutions, any of which could significantly and adversely affect regulatory approval and supplies of our therapeutic candidates, and materially and adversely affect our business, financial condition and results of operations.

Even if we obtain regulatory approvals, our therapeutic candidates will be subject to ongoing regulatory review. If we fail to comply with continuing U.S. and applicable foreign laws, regulations and guidelines, we could lose those approvals, and our business would be seriously harmed.

Even if our therapeutic candidates receive regulatory approval, we or our commercialization partners, as applicable, will be subject to ongoing reporting obligations, including pharmacovigilance, and the therapeutic candidates and the manufacturing operations will be subject to continuing regulatory review, including inspections by the U.S. Food and Drug Administration or other foreign regulatory authorities. The results of this ongoing review may result in the withdrawal of a therapeutic candidate from the market, the interruption of the manufacturing operations and/or the imposition of labeling and/or marketing limitations. Since many more patients are exposed to drugs following their marketing approval, serious but infrequent adverse reactions that were not observed in clinical trials may be observed during the commercial marketing of the therapeutic candidate. In addition, the manufacturer and the manufacturing facilities that we or our commercialization partners use to produce any therapeutic candidate will be subject to periodic review and inspection by the U.S. Food and Drug Administration and other foreign regulatory authorities. Later discovery of previously unknown problems with any therapeutic candidate, manufacturer or manufacturing process, or failure to comply with rules and regulatory requirements, may result in actions, including but not limited to the following:

- restrictions on such therapeutic candidate, manufacturer or manufacturing process;
- warning letters from the U.S. Food and Drug Administration or other foreign regulatory authorities;
- withdrawal of the therapeutic candidate from the market;
- suspension or withdrawal of regulatory approvals;
- refusal to approve pending applications or supplements to approved applications that we or our commercialization partners submit;
- voluntary or mandatory recall;
- fines;
- refusal to permit the import or export of our therapeutic candidates;
- product seizure or detentions;
- injunctions or the imposition of civil or criminal penalties;
- adverse publicity; or
- if we, or our commercialization partners, suppliers, third party contractors or clinical investigators are slow to adapt, or are unable to adapt, to changes in existing regulatory requirements or the adoption of new regulatory requirements or policies, we or our commercialization partners may lose marketing approval for any of our therapeutic candidates if any of our therapeutic candidates are approved, resulting in decreased or lost revenue from milestones, product sales or royalties.

Modifications to our therapeutic candidates, or to any other therapeutic candidates that we may develop in the future, may require new regulatory clearances or approvals or may require us or our development and/or commercialization partners, as applicable, to recall or cease marketing these therapeutic candidates until clearances are obtained.

Modifications to our therapeutic candidates, after they have been approved for marketing, if at all, or to any other pharmaceutical product or medical device that we may develop in the future, may require new regulatory clearance or approvals, and, if necessitated by a problem with a marketed product, may result in the recall or suspension of marketing of the previously approved and marketed product until clearances or approvals of the modified product are obtained. The U.S. Food and Drug Administration and other foreign regulatory authorities require pharmaceutical products and device manufacturers to initially make and document a determination of whether or not a modification requires a new approval, supplement or clearance. A manufacturer may determine in conformity with applicable laws, regulations and guidelines that a modification may be implemented without pre-clearance by the U.S. Food and Drug Administration or other foreign regulatory authorities; however, the U.S. Food and Drug Administration or other foreign regulatory authorities can review a manufacturer's decision and may disagree. The U.S. Food and Drug Administration or other foreign regulatory authorities may also on their own initiative determine that a new clearance or approval is required. If the U.S. Food and Drug Administration or other foreign regulatory authorities require new clearances or approvals of any pharmaceutical product for which we or our development and/or commercialization partners previously received marketing approval, we or our development and/or commercialization partners may be required to recall such therapeutic candidate and to stop marketing the therapeutic candidate as modified, which could require us or our development and/or commercialization partners to redesign the therapeutic candidate and cause a material adverse effect on our business, financial condition and results of operations.

We depend on our ability to identify and in-license or acquire therapeutic candidates to achieve commercial success.

Our six therapeutic candidates were all acquired by us or licensed to us by third parties. We evaluate internally and with external consultants each therapeutic candidate. However, there can be no assurance as to our ability to accurately or consistently identify therapeutic candidates that are likely to achieve commercial success. In addition, even if we identify additional therapeutic candidates that are likely to achieve commercial success, there can be no assurance as to our ability to in-license or acquire such therapeutic candidates under favorable terms or at all.

If we cannot meet our obligations under our acquisition or in-license agreements or we cannot renegotiate our obligations, or if other events occur that are not within our control such as bankruptcy of a licensor, we could lose the rights to our therapeutic candidates and/or experience delays in developing our therapeutic candidates, or incur additional costs, which could have a material adverse effect on our business.

We acquired our rights to three of our therapeutic candidates, RHB-104, RHB-105 and RHB-106, from a third party pursuant to an asset and purchase agreement. In addition, we in-licensed our rights to three other therapeutic candidates, RHB-101, RHB-102, and RHB-103 pursuant to license agreements in which we received exclusive worldwide perpetual licenses to certain patent rights and know-how related to these therapeutic candidates. These agreements require us to make payments and satisfy various performance obligations in order to maintain our rights and licenses with respect to these therapeutic candidates. If we do not meet our obligations under these agreements, or if other events occur that are not within our control such as the bankruptcy of a licensor, we could lose the rights to our therapeutic candidates, experience delays in developing our therapeutic candidates and/or incur additional costs, any of which could have a material adverse effect on our business, financial condition and results of operations. In addition, our agreement with IntelGenx Corp. requires us to renegotiate certain provisions of the contract in the event the agreed-to budget is exceeded by a certain amount. In the event we are required to renegotiate this agreement, there is no guarantee that we will agree upon new terms promptly, or at all, which could delay the development of RHB-103.

In addition, we are responsible for the cost of filing and prosecuting certain patent applications and maintaining certain issued patents licensed to us. If we do not meet our obligations under these agreements in a timely manner and/or if other events occur that are not within our control, such as the bankruptcy of a licensor, which impacts our ability to prosecute certain patent applications and maintain certain issued patents licensed to us, we could lose the rights to our therapeutic candidates which could have a material adverse effect on our business, financial condition and results of operations.

If we are not able to secure patents related to RHB-102, our ability to commercialize RHB-102 or enter into commercialization agreements with potential partners with respect to this product may be adversely affected.

The party from whom we originally licensed RHB-102, SCOLR Pharma Inc., a U.S. publicly traded company, announced during 2013 that it had ceased business operations. Under the terms of the license agreement between RedHill and SCOLR Pharma, should SCOLR Pharma file for bankruptcy, RedHill has the protection afforded to the licensee under the United States Bankruptcy Code. Moreover, RedHill has independently filed with the USPTO a provisional patent application, owned by RedHill, covering the formulation of RHB-102.

We are taking active steps to further safeguard our rights under the RHB-102 license agreement; however, there is no guarantee that these steps will be successful. SCOLR Pharma itself is a licensee of relevant patents from other third parties, and it is possible that due to SCOLR Pharma's financial condition that it may be or become in breach of obligations to such third party licensors, which may adversely affect our rights in RHB-102. We are continuing the development program of RHB-102 as planned, and we are not expecting any delays in such program resulting from SCOLR Pharma's decision to cease operations. However, any complications in our ability to secure patents related to RHB-102 could harm our ability to obtain marketing approval for RHB-102, commercialize the product or to enter into commercialization agreements with potential partners.

Our business could suffer if we are unable to attract and retain key employees.

The loss of the services of members of senior management or other key personnel could delay or otherwise adversely impact the successful completion of our planned clinical trials or the commercialization of our therapeutic candidates or otherwise affect our ability to manage our company effectively and to carry out our business plan. These key personnel are Dror Ben-Asher, our Chief Executive Officer, and Reza Fathi, our Senior Vice President for Research and Development. We do not maintain key-man life insurance. Although we have entered into employment or consultancy agreements with all of the members of our senior management team, members of our senior management team may resign at any time. High demand exists for senior management and other key personnel in the pharmaceutical industry. There can be no assurance that we will be able to continue to retain and attract such personnel.

Our growth and success also depend on our ability to attract and retain additional highly qualified scientific, technical, business development, marketing, managerial and finance personnel. We experience intense competition for qualified personnel, and the existence of non-competition agreements between prospective employees and their former employers may prevent us from hiring those individuals or subject us to liability from their former employers. In addition, if we elect to independently commercialize any therapeutic candidate, we will need to build and expand our marketing and sales capabilities. While we attempt to provide competitive compensation packages to attract and retain key personnel, many of our competitors are likely to have greater resources and more experience than we have, making it difficult for us to compete successfully for key personnel. If we cannot attract and retain sufficiently qualified technical employees on acceptable terms, we may not be able to develop and commercialize competitive therapeutic candidates. Further, any failure to effectively integrate new personnel could prevent us from successfully growing our company.

We face several risks associated with international business.

We operate our business in multiple international jurisdictions. Such operations could be affected by changes in foreign exchange rates, capital and exchange controls, expropriation and other restrictive government actions, changes in intellectual property legal protections and remedies, trade regulations and procedures and actions affecting approval, production, pricing, and marketing of, reimbursement for and access to, our therapeutic candidates, as well as by political unrest, unstable governments and legal systems and inter-governmental disputes. Any of these changes could adversely affect our business.

Risks Related to Our Industry

Even if our therapeutic candidates receive regulatory approval or do not require regulatory approval, they may not become commercially viable products.

Even if our therapeutic candidates are approved for commercialization, they may not become commercially viable products. For example, if we or our commercialization partners receive regulatory approval to market a therapeutic candidate, approval may be subject to limitations on the indicated uses or subject to labeling or marketing restrictions which could materially and adversely affect the marketability and profitability of the therapeutic candidate. In addition, a new therapeutic candidate may appear promising at an early stage of development or after clinical trials but never reach the market, or it may reach the market but not result in sufficient product sales, if any. A therapeutic candidate may not result in commercial success for various reasons, including but not limited to:

- difficulty in large-scale manufacturing, including yield and quality;
- low market acceptance by physicians, healthcare payors, patients and the medical community as a result of lower demonstrated clinical safety or efficacy compared to other products, prevalence and severity of adverse side effects, or other potential disadvantages relative to alternative treatment methods;
- insufficient or unfavorable levels of reimbursement from government or third-party payors, such as insurance companies, health maintenance organizations and other health plan administrators;
- infringement on proprietary rights of others for which we or our commercialization partners have not received licenses;
- incompatibility with other therapeutic products;
- other potential advantages of alternative treatment methods and competitive forces that may make it more difficult for us to penetrate a particular market segment;
- ineffective marketing and distribution support;
- lack of significant competitive advantages over existing products on the market;
- lack of cost-effectiveness or unfavorable pricing compared to other alternatives available on the market; or
- timing of market introduction of competitive products.

Physicians, various other health care providers, patients, payers or the medical community in general may be unwilling to accept, utilize or recommend any of our approved therapeutic candidates. If we are unable, either on our own or through third parties, to manufacture, commercialize and market our proposed formulations or therapeutic candidates when planned, or develop commercially viable therapeutic candidates, we may not achieve any market acceptance or generate revenue.

The market for our therapeutic candidates is rapidly changing and competitive, and new drug delivery mechanisms, drug delivery technologies, new drugs and new treatments which may be developed by others could impair our ability to maintain and grow our business and remain competitive.

The pharmaceutical and biotechnology industry is highly competitive, and we face significant competition from many pharmaceutical, biopharmaceutical and biotechnology companies that are researching and marketing products designed to address the indications for which we are currently developing therapeutic candidates or for which we may develop therapeutic candidates in the future. There are various other companies that currently market and/or are in the process of developing products that address all of the indications or diseases treated by our therapeutic candidates. For information regarding our competition, see Item 4. “Information on the Company – B. Business Overview – Our Therapeutic Candidates.”

New drug delivery mechanisms, drug delivery technologies, new drugs and new treatments that have been developed or that are in the process of being developed by others may render our therapeutic candidates noncompetitive or obsolete, or we may be unable to keep pace with technological developments or other market factors. Some of these technologies may have an entirely different approach or means of accomplishing similar therapeutic effects compared to our therapeutic candidates. Technological competition from pharmaceutical and biotechnology companies, universities, governmental entities and others is intense and is expected to increase. Many of these entities have significantly greater research and development capabilities, human resources and budgets than we do, as well as substantially more marketing, manufacturing, financial and managerial resources. These entities represent significant competition for us. Acquisitions of, or investments in, competing pharmaceutical or biotechnology companies by large corporations could increase such competitors' financial, marketing, manufacturing and other resources.

The potential widespread acceptance of therapies that are alternatives to ours may limit market acceptance of our formulations or therapeutic candidates, even if commercialized. Many of our targeted diseases and conditions can also be treated by other medication or drug delivery technologies. These treatments may be widely accepted in medical communities and have a longer history of use. The established use of these competitive drugs may limit the potential for our therapeutic candidates to receive widespread acceptance if commercialized.

We could be adversely affected if healthcare reform measures substantially change the market for medical care or healthcare coverage in the U.S.

On March 23, 2010, President Obama signed the "Patient Protection and Affordable Care Act" (P.L. 111-148) and on March 30, 2010, the President signed the "Health Care and Education Reconciliation Act" (P.L. 111-152), collectively commonly referred to as the "Healthcare Reform Law." The Health Reform Law included a number of new rules regarding health insurance, the provision of health care, and conditions to reimbursement for healthcare services provided to Medicare and Medicaid patients. Through the rule making process, substantial changes are being made to the current system for paying for healthcare in the U.S., including changes made in order to extend medical benefits to those who currently lack insurance coverage. Extending coverage to a large population could substantially change the structure of the health insurance system and the methodology for reimbursing medical services and drugs. This legislation is one of the most comprehensive and significant reforms ever experienced by the U.S. in the healthcare industry and is expected to have meaningful ramifications on tens of millions of citizens in the U.S. This legislation is expected to impact the scope of healthcare insurance, the insurance refunds from the insurance companies and possibly also the costs of medical products. Additionally, the Healthcare Reform Law's provisions are designed to encourage providers to find cost savings in their clinical operations. Pharmaceuticals represent a significant portion of the cost of providing care. Through modified reimbursement rates and other incentives, the U.S. government is requiring that providers identify the most cost-effective services, supplies and pharmaceuticals. This environment has caused changes in the purchasing habits of providers and resulted in specific attention to the pricing negotiation, product selection and utilization review surrounding pharmaceuticals. To the extent that our products are at some point reimbursable by Federal programs, this attention may result in our products being chosen less frequently or the pricing being substantially lowered. However, at this stage, we are unable to estimate the full extent of the direct and/or indirect impact of the new legislation on us.

These structural changes could entail modifications to the existing system of private payors and government programs (Medicare, Medicaid and State Children's Health Insurance Program), creation of a government-sponsored healthcare insurance source, or some combination of both, as well as other changes. Restructuring the coverage of medical care in the U.S. could impact the reimbursement for prescribed drugs and pharmaceuticals, such as those we and our development and/or commercialization partners are currently developing. If reimbursement for our approved therapeutic candidates, if any, is substantially reduced in the future, or rebate obligations associated with them are substantially increased, our business could be materially and adversely impacted.

Extending medical benefits to those who currently lack coverage will likely result in substantial cost to the U.S. federal government, which may force significant additional changes to the healthcare system in the U.S. Much of the funding for expanded healthcare coverage may be sought through cost savings. While some of these savings may come from realizing greater efficiencies in delivering care, improving the effectiveness of preventive care and enhancing the overall quality of care, much of the cost savings may come from reducing the cost of care. Cost of care could be reduced by decreasing the level of reimbursement for medical services or products (including those pharmaceuticals currently being developed by us or our development and/or commercialization partners), or by restricting coverage (and, thereby, utilization) of medical services or products. In either case, a reduction in the utilization of, or reimbursement for, any therapeutic candidate for which we receive marketing approval in the future could have a materially adverse effect on our financial performance.

Several states and private entities mounted legal challenges to the healthcare reform legislation. That litigation culminated in a decision from the U.S. Supreme Court on July 26, 2012 that generally upheld the healthcare reform legislation as constitutional. However, the Supreme Court held that the legislation improperly required the States to expand their Medicaid programs to cover more individuals. As a result, the States now have a choice as to whether they will expand the numbers of individuals covered by their respective State Medicaid programs. Some States have already indicated that they will not expand their Medicaid programs and will develop other cost saving and coverage measures to provide care to currently uninsured residents. Many of these efforts to date have included the institution of Medicaid managed care programs. The manner in which these cost saving measures are implemented could have a materially adverse effect on our financial performance.

If third-party payors do not adequately reimburse customers for any of our therapeutic candidates that are approved for marketing, they might not be purchased or used, and our revenues and profits will not develop or increase.

Our revenues and profits will depend heavily upon the availability of adequate reimbursement for the use of our approved therapeutic candidates, if any, from governmental or other third-party payors, both in the U.S. and in foreign markets. Reimbursement by a third-party payor may depend upon a number of factors, including but not limited to the third-party payor's determination that the use of an approved therapeutic candidate is:

- a covered benefit under its health plan;
- safe, effective and medically necessary;
- appropriate for the specific patient;
- cost-effective; and
- neither experimental nor investigational.

Obtaining reimbursement approval for a therapeutic candidate from each government or other third-party payor is a time-consuming and costly process that could require us or our development and/or commercialization partners to provide supporting scientific, clinical and cost-effectiveness data for the use of our therapeutic candidates to each payor. Even when a payor determines that a therapeutic candidate is eligible for reimbursement, the payor may impose coverage limitations that preclude payment for some uses that are approved by the U.S. Food and Drug Administration or other foreign regulatory authorities. Reimbursement rates may vary according to the use of the therapeutic candidate and the clinical setting in which it used, may be based on payments allowed for lower-cost products that are already reimbursed, may be incorporated into existing payments for other products or services, and may reflect budgetary constraints and/or imperfections in Medicare, Medicaid or other data used to calculate these rates.

In the U.S., there have been, and we expect that there will continue to be, federal and state proposals to constrain expenditures for medical products and services, which may affect payments for our therapeutic candidates in the U.S. In addition, there is a growing emphasis on comparative effectiveness research, both by private payors and by government agencies. To the extent other drugs or therapies are found to be more effective than our products, payors may elect to cover such therapies in lieu of our products and/or reimburse our products at a lower rate. We believe that legislation that reduces reimbursement for our therapeutic candidates could adversely impact how much or under what circumstances healthcare providers will prescribe or administer our therapeutic candidates, if approved. This could materially and adversely impact our business by reducing our ability to generate revenue, raise capital, obtain additional collaborators and market our therapeutic candidates, if approved. At this stage, we are unable to estimate the extent of the direct and/or indirect impact of any such federal and state proposals.

Further, the Centers for Medicare and Medicaid Services frequently change product descriptors, coverage policies, product and service codes, payment methodologies and reimbursement values. Third-party payors often follow Medicare coverage policy and payment limitations in setting their own reimbursement rates, and both the Centers for Medicare and Medicaid Services and other third-party payors may have sufficient market power to demand significant price reductions.

We could be exposed to significant drug product liability claims which could be time consuming and costly to defend, divert management attention and adversely impact our ability to obtain and maintain insurance coverage.

The clinical trials that we conduct, and the testing, manufacture, marketing and commercial sale of our therapeutic candidates, involve and will involve an inherent risk that significant liability claims may be asserted against us. We currently have a product liability policy that includes coverage for our clinical trials. Should we decide to seek additional insurance against such risks before our product sales commence, there is a risk that such insurance will be unavailable to us, or if it can be obtained at such time, that it will be available at an unaffordable cost. Even if we obtain insurance, it may prove inadequate to cover claims and/or litigation costs, especially in the case of wrongful death claims. Product liability claims or other claims related to our therapeutic candidates, regardless of their outcome, could require us to spend significant time and money in litigation or to pay significant settlement amounts or judgments. Any successful product liability or other claim may prevent us from obtaining adequate liability insurance in the future on commercially desirable or reasonable terms. An inability to obtain sufficient insurance coverage at an acceptable cost or otherwise to protect against potential product liability claims could prevent or inhibit the commercialization of our products and therapeutic candidates. A product liability claim could also significantly harm our reputation and delay market acceptance of our therapeutic candidates.

Global economic conditions may make it more difficult for us to commercialize our therapeutic candidates

The pharmaceutical industry, like other industries and businesses, continues to face the effects of the challenging economic environment. Patients experiencing the effects of the challenging economic environment, including high unemployment levels and increases in co-pays, may switch to generic products, delay treatments, skip doses or use less effective treatments to reduce their costs. Challenging economic conditions in the U.S. have increased the number of patients in the Medicaid program, under which sales of pharmaceuticals are subject to substantial rebates and, in many states, to formulary restrictions limiting access to brand-name drugs. In addition, in Europe and in a number of emerging markets there are government-mandated reductions in prices for certain pharmaceutical products, as well as government-imposed access restrictions in certain countries. All of the aforesaid may make it more difficult for us to commercialize our therapeutic candidates.

Our business involves risks related to handling regulated substances which could severely affect our ability to conduct research and development of our therapeutic candidates.

In connection with our or our development and/or commercialization partners' research and clinical development activities, as well as the manufacture of materials and therapeutic candidates, we and our development and/or commercialization partners are subject to federal, state and local laws, rules, regulations and policies governing the use, generation, manufacture, storage, air emission, effluent discharge, handling and disposal of certain materials, biological specimens and wastes. We and our development and/or commercialization partners may be required to incur significant costs to comply with environmental and health and safety regulations in the future. Our research and clinical development, as well as the activities of our manufacturing and commercialization partners, both now and in the future, may involve the controlled use of hazardous materials, including but not limited to certain hazardous chemicals. We cannot completely eliminate the risk of accidental contamination or injury from these materials. In the event of such an occurrence, we could be held liable for any damages that result and any such liability could exceed our resources.

Risks Related to Intellectual Property

We may be unable to adequately protect or enforce our rights to intellectual property, causing us to lose valuable rights. Loss of patent rights may lead us to lose market share and anticipated profits.

Our success depends, in part, on our ability, and the ability of our commercialization partners to obtain patent protection for our therapeutic candidates, maintain the confidentiality of our trade secrets and know how, operate without infringing on the proprietary rights of others and prevent others from infringing our proprietary rights.

We try to protect our proprietary position by, among other things, filing U.S., European, and other patent applications related to our therapeutic candidates, inventions and improvements that may be important to the continuing development of our therapeutic candidates.

Because the patent position of pharmaceutical companies involves complex legal and factual questions, we cannot predict the validity and enforceability of patents with certainty. Our issued patents and the issued patents of our commercialization partners may not provide us with any competitive advantages, or may be held invalid or unenforceable as a result of legal challenges by third parties or could be circumvented. Our competitors may also independently develop drug delivery technologies or products similar to ours or design around or otherwise circumvent patents issued to, or licensed by, us. Thus, any patents that we own or license from others may not provide any protection against competitors. Our pending patent applications, those we may file in the future or those we may license from third parties may not result in patents being issued. If these patents are issued, they may not provide us with proprietary protection or competitive advantages. The degree of future protection to be afforded by our proprietary rights is uncertain because legal means afford only limited protection and may not adequately protect our rights or permit us to gain or keep our competitive advantage.

Patent rights are territorial; thus, the patent protection we do have will only extend to those countries in which we have issued patents. Even so, the laws of certain countries do not protect our intellectual property rights to the same extent as do the laws of the U.S. and the European Union. Competitors may successfully challenge our patents, produce similar drugs or products that do not infringe our patents, or produce drugs in countries where we have not applied for patent protection or that do not respect our patents. Furthermore, it is not possible to know the scope of claims that will be allowed in published applications and it is also not possible to know which claims of granted patents, if any, will be deemed enforceable in a court of law.

After the completion of development and registration of our patents, third parties may still manufacture and/or market therapeutic candidates in infringement of our patent protected rights. Such manufacture and/or market of our therapeutic candidates in infringement of our patent protected rights is likely to cause us damage and lead to a reduction in the prices of our therapeutic candidates, thereby reducing our anticipated profits.

In addition, due to the extensive time needed to develop, test and obtain regulatory approval for our therapeutic candidates, any patents that protect our therapeutic candidate may expire early during commercialization. This may reduce or eliminate any market advantages that such patents may give us. Following patent expiration, we may face increased competition through the entry of generic products into the market and a subsequent decline in market share and profits.

In addition, in some cases we may rely on our licensors to conduct patent prosecution, patent maintenance or patent defense on our behalf. Therefore, our ability to ensure that these patents are properly prosecuted, maintained, or defended may be limited, which may adversely affect our rights in our therepeutic products. Any failure by our licensors or development partners to properly conduct patent prosecution, patent maintenance or patent defense could harm our ability to obtain approval or commercialization of the products, thereby reducing our anticipated profits.

If we are unable to protect the confidentiality of our trade secrets or know-how, such proprietary information may be used by others to compete against us.

In addition to filing patents, we generally try to protect our trade secrets, know-how and technology by entering into confidentiality or non-disclosure agreements with parties that have access to it, such as our development and/or commercialization partners, employees, contractors and consultants. We also enter into agreements that purport to require the disclosure and assignment to us of the rights to the ideas, developments, discoveries and inventions of our employees, advisors, research collaborators, contractors and consultants while we employ or engage them. However, these agreements can be difficult and costly to enforce or may not provide adequate remedies. Any of these parties may breach the confidentiality agreements and willfully or unintentionally disclose our confidential information, or our competitors might learn of the information in some other way. The disclosure to, or independent development by, a competitor of any trade secret, know-how or other technology not protected by a patent could materially adversely affect any competitive advantage we may have over any such competitor.

To the extent that any of our employees, advisors, research collaborators, contractors or consultants independently develop, or use independently developed, intellectual property in connection with any of our projects, disputes may arise as to the proprietary rights to this type of information. If a dispute arises with respect to any proprietary right, enforcement of our rights can be costly and unpredictable and a court may determine that the right belongs to a third party.

Legal proceedings or third-party claims of intellectual property infringement and other challenges may require us to spend substantial time and money and could prevent us from developing or commercializing our therapeutic candidates.

The development, manufacture, use, offer for sale, sale or importation of our therapeutic candidates may infringe on the claims of third-party patents or other intellectual property rights. The nature of claims contained in unpublished patent filings around the world is unknown to us and it is not possible to know which countries patent holders may choose for the extension of their filings under the Patent Cooperation Treaty, or other mechanisms. We may also be subject to claims based on the actions of employees and consultants with respect to the usage or disclosure of intellectual property learned at other employers. The cost to us of any intellectual property litigation or other infringement proceeding, even if resolved in our favor, could be substantial. Some of our competitors may be able to sustain the costs of such litigation or proceedings more effectively because of their substantially greater financial resources. Uncertainties resulting from the initiation and continuation or defense of intellectual property litigation or other proceedings could have a material adverse effect on our ability to compete in the marketplace. Intellectual property litigation and other proceedings may also absorb significant management time. Consequently, we are unable to guarantee that we will be able to manufacture, use, offer for sale, sell or import our therapeutic candidates in the event of an infringement action.

In the event of patent infringement claims, or to avoid potential claims, we may choose or be required to seek a license from a third party and would most likely be required to pay license fees or royalties or both. These licenses may not be available on acceptable terms, or at all. Even if we were able to obtain a license, the rights may be non-exclusive, which could potentially limit our competitive advantage. Ultimately, we could be prevented from commercializing a therapeutic candidate or be forced to cease some aspect of our business operations if, as a result of actual or threatened patent infringement or other claims, we are unable to enter into licenses on acceptable terms. This inability to enter into licenses could harm our business significantly.

We may be subject to other patent-related litigation or proceedings that could be costly to defend and uncertain in their outcome.

In addition to infringement claims against us, we may in the future become a party to other patent litigation or proceedings before regulatory agencies, including interference or re-examination proceedings filed with the U.S. Patent and Trademark Office or opposition proceedings in other foreign patent offices regarding intellectual property rights with respect to our therapeutic candidates, as well as other disputes regarding intellectual property rights with development and/or commercialization partners, or others with whom we have contractual or other business relationships. Post-issuance oppositions are not uncommon and we, our development and/or commercialization partners will be required to defend these opposition procedures as a matter of course. Opposition procedures may be costly, and there is a risk that we may not prevail which could harm our business significantly.

Risks Related to our Ordinary Shares and American Depositary Shares

We may be a passive foreign investment company, or PFIC, for U.S. federal income tax purposes in 2013 or in any subsequent year which may have negative tax consequences for U.S. investors.

We will be treated as a PFIC for U.S. federal income tax purposes in any taxable year in which either (i) at least 75% of our gross income is "passive income" or (ii) on average at least 50% of our assets by value produce passive income or are held for the production of passive income. Based on our estimated gross income, the average value of our gross assets, and the nature of our business, we believe that we may be classified as a PFIC in the current taxable year and in future years. In addition, because we have valued our goodwill based on the market value of our equity, a decrease in the price of our ordinary shares may result in our becoming a PFIC. If we are treated as a PFIC for any taxable year during which a U.S. investor held our ordinary shares or American Depositary Shares, certain adverse U.S. federal income tax consequences could apply to the U.S. investor. See "Item 10. Additional Information – E. Taxation – Foreign Exchange Regulations – Passive Foreign Investment Companies."

The market price of our ordinary shares and our American Depositary Shares are subject to fluctuation, which could result in substantial losses by our investors.

The stock market in general and the market price of our ordinary shares on the Tel Aviv Stock Exchange and our American Depository Shares on The Nasdaq Capital Market in particular, are subject to fluctuation, and changes in our share price may be unrelated to our operating performance. The market price of our ordinary shares on the Tel Aviv Stock Exchange has fluctuated in the past, and we expect it will continue to do so. It is likely that the market price of our American Depositary Shares will likewise be subject to wide fluctuations. The market price of our ordinary shares and American Depositary Shares are and will be subject to a number of factors, including but not limited to:

- announcements of technological innovations or new therapeutic candidates by us or others;
- announcements by us of significant acquisitions, strategic partnerships, in-licensing, out-licensing, joint ventures or capital commitments;
- expiration or terminations of licenses, research contracts or other development or commercialization agreements;
- public concern as to the safety of drugs we, our development or commercialization partners or others develop;
- the volatility of market prices for shares of biotechnology companies generally;
- success or failure of research and development projects;
- departure of key personnel;
- developments concerning intellectual property rights or regulatory approvals;
- variations in our and our competitors' results of operations;
- changes in earnings estimates or recommendations by securities analysts, if our ordinary shares or American Depositary Shares are covered by analysts;
- changes in government regulations or patent decision;
- developments by our development and/or commercialization partners; and
- general market conditions and other factors, including factors unrelated to our operating performance.

These factors and any corresponding price fluctuations may materially and adversely affect the market price of our ordinary shares and result in substantial losses by our investors.

Additionally, market prices for securities of biotechnology and pharmaceutical companies historically have been very volatile. The market for these securities has from time to time experienced significant price and volume fluctuations for reasons unrelated to the operating performance of any one company. In the past, following periods of market volatility, shareholders have often instituted securities class action litigation. If we were involved in securities litigation, it could have a substantial cost and divert resources and attention of management from our business, even if we are successful.

Future sales of our ordinary shares or American Depositary Shares could reduce the market price of our ordinary shares and American Depositary Shares.

All of our outstanding ordinary shares are registered and available for sale in Israel. In addition, as of February 24, 2014, we had non-tradable warrants to purchase an aggregate of 7,087,726 ordinary shares and non-tradable warrants to purchase an aggregate of 357,896 ADSs (each representing 10 ordinary shares) and options to purchase 14,735,000 ordinary shares under our 2010 Stock Option Plan. See "Item 6. Directors, Senior Management and Employees – E. Share Ownership – Stock Option Plans." Substantial sales of our ordinary shares or American Depositary Shares, or the perception that such sales may occur in the future, including sales of shares issuable upon the exercise of options and warrants, may cause the market price of our ordinary shares or American Depositary Shares to decline. Moreover, the issuance of shares underlying our options and warrants will also have a dilutive effect on our shareholders, which could further reduce the price of our ordinary shares and American Depositary Shares on their respective exchanges.

Should we issue ADSs or ordinary shares at a price below $9.50 or $0.95 per share, respectively, or warrants or other convertible securities pursuant to which ADSs or ordinary shares may be acquired at a price below $9.50 or $0.95 per share, respectively, we may be required to issue additional ADSs, without any new consideration, to various investors, potentially resulting in substantial dilution to you.

Pursuant to the terms of the securities purchase agreements that we entered into in December 2013 with OrbiMed Israel Partners Limited Partnership and Broadfin Healthcare Master Fund, LTD, until we consummate a financing or series of financings that result in at least $13,800,000 of gross proceeds (after taking into account the subsequent private placement announced by us on January 22, 2014), should we issue any ADSs or ordinary shares at a price below $9.50 or $0.95 per share, respectively, or warrants or other convertible or exchangeable securities pursuant to which ADSs or ordinary shares may be acquired at a price below $9.50 or $0.95 per share, respectively (other than in connection with employment arrangements and certain business combinations and strategic transactions), then we are obligated to issue additional ADSs to these investors in an amount sufficient that the total offering price paid by each such investor for its ADSs under its respective securities purchase agreement, when divided by the total number of ADSs originally issued to such investor under such securities purchase agreement plus the additional ADSs issued as a result of this lower price issuance and any additional ADSs issued as a result of any previous lower price issuances, will result in an actual price paid by the investor per ADS equal to either (i) such lower price, in the case of a subsequent issuance by us of lower priced ADSs or convertible or exchangeable securities pursuant to which ADSs may be acquired, or (ii) the product of (a) ten and (b) such lower price, in the case of a subsequent issuance by us of lower priced ordinary shares or convertible or exchangeable securities pursuant to which ordinary shares may be acquired. As this protection is a full ratchet adjustment regardless of the number of securities subsequently issued by us, it could result in substantial dilution to you should we consummate any non-exempt issuance pursuant to which ADSs or ordinary shares are acquired or may be acquired from us at a price below $9.50 or $0.95 per share, respectively.

Our ordinary shares and our American Depositary Shares are traded on different markets and this may result in price variations.

Our ordinary shares have been traded on the Tel Aviv Stock Exchange since February 2011, and our American Depositary Shares have been listed on The Nasdaq Capital Market since December 27, 2012. Trading in our securities on these markets take place in different currencies (U.S. dollars on The Nasdaq Capital Market and New Israeli Shekels, or NIS, on the Tel Aviv Stock Exchange), and at different times (resulting from different time zones, different trading days and different public holidays in the U.S. and Israel). The trading prices of our securities on these two markets may differ due to these and other factors. Any decrease in the price of our securities on one of these markets could cause a decrease in the trading price of our securities on the other market.

An active market may not develop for our American Depositary Shares on The Nasdaq Capital Market, and this may limit the ability of our investors to sell our American Depositary Shares in the U.S.

Our American Depositary Shares began trading on The Nasdaq Capital Market last year, and an active trading market for our American Depositary Shares may never develop or may not be sustained if one develops. If an active market for our American Depositary Shares does not develop, it may be difficult to sell your American Depositary Shares.

We may incur significant additional increased costs as a result of the listing of our American Depositary Shares on The Nasdaq Capital Market, and our management may be required to devote substantial time to new compliance initiatives as well as to compliance with ongoing U.S. and Israeli reporting requirements.

As a public company in the U.S., we may incur additional significant accounting, legal and other expenses as a result of the listing of our securities on both The Nasdaq Capital Market and the Tel-Aviv Stock Exchange. These may include costs associated with reporting requirements of the Securities and Exchange Commission and the Nasdaq Marketplace Rules. These rules and regulations have increased our legal and financial compliance costs, introduced new costs such as investor relations, travel costs, stock exchange listing fees and shareholder reporting, and made some activities more time consuming and costly. These laws, rules and regulations make it more difficult, and have made it more costly for us to obtain certain types of insurance, including director and officer liability insurance. The impact of these requirements could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers and may require us to pay more for such positions.

As an "emerging growth company," as defined in the JOBS Act, we may take advantage of certain temporary exemptions from various reporting requirements, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes Oxley Act (and the rules and regulations of the SEC thereunder). When these exemptions cease to apply, we expect to incur additional expenses and devote increased management effort toward ensuring compliance with them. We cannot predict or estimate the amount of additional costs we may incur as a result of complying with these additional reporting requirements.

As a foreign private issuer, we are permitted to follow certain home country corporate governance practices instead of applicable Securities and Exchange Commission and Nasdaq Stock Market requirements, which may result in less protection than is accorded to investors under rules applicable to domestic issuers.

As a foreign private issuer, we are permitted to follow certain home country corporate governance practices instead of those otherwise required under the Nasdaq Marketplace Rules for domestic issuers. For instance, we follow home country practice in Israel with regard to, among other things, composition of the board of directors, which does not require that a majority of a company's board of directors be independent, director nomination procedure and quorum at shareholders' meetings. In addition, we follow our home country law, instead of the Nasdaq Marketplace Rules, which require that we obtain shareholder approval for certain dilutive events, such as for the establishment or amendment of certain equity based compensation plans, an issuance that will result in a change of control of the company, certain transactions other than a public offering involving issuances of a 20% or more interest in the company and certain acquisitions of the stock or assets of another company. Following our home country governance practices as opposed to the requirements that would otherwise apply to a U.S. company listed on the Nasdaq Capital Market may provide less protection than is accorded to investors under the Marketplace Rules of The Nasdaq Stock Market applicable to domestic issuers.

In addition, as a foreign private issuer, we are exempt from the rules and regulations under the U.S. Securities Exchange Act of 1934, as amended, related to the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the U.S. Securities Exchange Act of 1934, as amended. In addition, we are not required under the U.S. Securities Exchange Act of 1934, as amended, to file annual, quarterly and current reports and financial statements with the Securities and Exchange Commission as frequently or as promptly as domestic companies whose securities are registered under the U.S. Securities Exchange Act of 1934, as amended.

We may fail to maintain effective internal controls over financial reporting, which may adversely affect investor confidence in our company and, as a result, may affect the value of our ordinary shares.

We are required, pursuant to Section 404 of the Sarbanes-Oxley Act, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting. Pursuant to the JOBS Act, we are classified as an "emerging growth company," and we are exempt from certain reporting requirements, including the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act. Under this exemption, our auditor will not be required to attest to and report on management's assessment of our internal controls over financial reporting during a five year transition period commencing in 2013.

Our management report regarding our internal control over financial reporting must include, among other things, disclosure of any material weaknesses identified by our management in our internal control over financial reporting. The continuous process of strengthening our internal controls and complying with Section 404 is complicated and time-consuming.

We have documented and tested our internal control systems and procedures in order for us to comply with the requirements of Section 404. While our assessment of our internal control over financial reporting resulted in our conclusion that as of December 31, 2013, our internal control over financial reporting was effective, we cannot predict the outcome of our testing in future periods. If we fail to maintain the adequacy of our internal controls, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting. Failure to maintain effective internal control over financial reporting could result in investigation or sanctions by regulatory authorities, and could have a material adverse effect on our operating results, investor confidence in the accuracy and completeness of our financial reports, which would cause the price of our ordinary shares to decline.

Because we became a reporting company under the Securities Exchange Act of 1934, as amended, by means of filing a Form 20-F, we may have difficulty attract the attention of research analysts at major brokerage firms.

Because we did not become a reporting company by conducting an underwritten initial public offering, we may have difficulty attracting the attention of security analysts at major brokerage firms in order for them to provide coverage of our company. The failure to receive research coverage or support in the market for our shares will have an adverse effect on our ability to develop a liquid market for our American Depositary Shares.

We currently do not anticipate paying cash dividends, and accordingly, shareholders must rely on the appreciation in our American Depositary Shares for any return on their investment.

We currently anticipate that we will retain future earnings for the development, operation and expansion of our business and do not anticipate declaring or paying any cash dividends for the foreseeable future. Therefore, the success of an investment in our American Depositary Shares will depend upon any future appreciation in their value. There is no guarantee that our American Depositary Shares will appreciate in value or even maintain the price at which our shareholders have purchased their shares.

You may not receive the same distributions or dividends as those we make to the holders of our ordinary shares, and, in some limited circumstances, you may not receive dividends or other distributions on our ordinary shares and you may not receive any value for them, if it is illegal or impractical to make them available to you.

The depositary for the American Depositary Shares has agreed to pay to you the cash dividends or other distributions it or the custodian receives on ordinary shares or other deposited securities underlying the American Depositary Shares, after deducting its fees and expenses. You will receive these distributions in proportion to the number of ordinary shares your American Depositary Shares represent. However, the depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any holders of American Depositary Shares. For example, it would be unlawful to make a distribution to a holder of American Depositary Shares if it consists of securities that require registration under the Securities Act of 1933, as amended, but that are not properly registered or distributed under an applicable exemption from registration. In addition, conversion into U.S. dollars from foreign currency that was part of a dividend made in respect of deposited ordinary shares may require the approval or license of, or a filing with, any government or agency thereof, which may be unobtainable. In these cases, the depositary may determine not to distribute such property and hold it as "deposited securities" or may seek to effect a substitute dividend or distribution, including net cash proceeds from the sale of the dividends that the depositary deems an equitable and practicable substitute. We have no obligation to register under U.S. securities laws any American Depositary Shares, ordinary shares, rights or other securities received through such distributions. We also have no obligation to take any other action to permit the distribution of American Depositary Shares, ordinary shares, rights or anything else to holders of American Depositary Shares. In addition, the depositary may withhold from such dividends or distributions its fees and an amount on account of taxes or other governmental charges to the extent the depositary believes it is required to make such withholding. This means that you may not receive the same distributions or dividends as those we make to the holders of our ordinary shares, and, in some limited circumstances, you may not receive any value for such distributions or dividends if it is illegal or impractical for us to make them available to you. These restrictions may cause a material decline in the value of the American Depositary Shares.

Holders of American Depositary Shares must act through the depositary to exercise their rights as shareholders of our company.

Holders of our American Depositary Shares do not have the same rights of our shareholders and may only exercise the voting rights with respect to the underlying ordinary shares in accordance with the provisions of the deposit agreement for the American Depositary Shares. Under Israeli law, the minimum notice period required to convene a shareholder meeting is no less than 35 or 21 calendar days, depending on the proposals on the agenda for the shareholders meeting. When a shareholder meeting is convened, holders of our American Depositary Shares may not receive sufficient notice of a shareholders' meeting to permit them to withdraw their ordinary shares to allow them to cast their vote with respect to any specific matter. In addition, the depositary and its agents may not be able to send voting instructions to holders of our American Depositary Shares or carry out their voting instructions in a timely manner. We will make all reasonable efforts to cause the depositary to extend voting rights to holders of our American Depositary Shares in a timely manner, but we cannot assure holders that they will receive the voting materials in time to ensure that they can instruct the depositary to vote their American Depositary Shares. Furthermore, the depositary and its agents are not responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. As a result, holders of our American Depositary Shares may not be able to exercise their right to vote and they may lack recourse if their American Depositary Shares are not voted as they requested. In addition, in the capacity as an American Depositary Share holder, they are not able to call a shareholders' meeting.

The depositary for our American Depositary Shares gives us a discretionary proxy to vote our ordinary shares underlying American Depositary Shares if a holder of our American Depositary Shares does not vote at shareholders' meetings, except in limited circumstances, which could adversely affect their interests.

Under the deposit agreement for the American Depositary Shares, the depositary gives us a discretionary proxy to vote our ordinary shares underlying American Depositary Shares at shareholders' meetings if a holder of our American Depositary Shares does not vote, unless:

- we have instructed the depositary that we do not wish a discretionary proxy to be given;
- we have informed the depositary that there is substantial opposition as to a matter to be voted on at the meeting; or
- a matter to be voted on at the meeting would have a material adverse impact on shareholders.

The effect of this discretionary proxy is that a holder of our American Depositary Shares cannot prevent our ordinary shares underlying such American Depositary Shares from being voted, absent the situations described above, and it may make it more difficult for shareholders to influence the management of our company. Holders of our ordinary shares are not subject to this discretionary proxy.

Risks Related to our Operations in Israel

We conduct our operations in Israel and therefore our results may be adversely affected by political, economic and military instability in Israel and its region.

We are incorporated under the laws of the State of Israel, our principle offices are located in central Israel and some of our officers, employees and directors are residents of Israel. Accordingly, political, economic and military conditions in Israel and the surrounding region may directly affect our business. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors. Any hostilities involving Israel or the interruption or curtailment of trade within Israel or between Israel and its trading partners could adversely affect our operations and results of operations and could make it more difficult for us to raise capital. In addition, recent political uprisings and conflicts in various countries in the Middle East, including Egypt and Syria, are affecting the political stability of those countries. It is not clear how this instability will develop and how it will affect the political and security situation in the Middle East. This instability has raised concerns regarding security in the region and the potential for armed conflict. In addition, it is widely believed that Iran, which has previously threatened to attack Israel, has been stepping up its efforts to achieve nuclear capability. Iran is also believed to have a strong influence among extremist groups in the region, such as Hamas in Gaza and Hezbollah in Lebanon. The tension between Israel and Iran and/or these groups may escalate in the future and turn violent, which could affect the Israeli economy generally and us in particular. Any armed conflicts, terrorist activities or political instability in the region could adversely affect business conditions and could harm our results of operations. For example, any major escalation in hostilities in the region could result in a portion of our employees being called up to perform military duty for an extended period of time. Parties with whom we do business have sometimes declined to travel to Israel during periods of heightened unrest or tension, forcing us to make alternative arrangements when necessary.

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

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

Our operations may be disrupted as a result of the obligation of management or personnel to perform military service.

Many of our employees in Israel, including members of our senior management, perform up to one month, and in some cases more, of annual military reserve duty until they reach the age of 45 or older and, in the event of a military conflict, may be called to active duty. There have also been periods of significant call-ups of military reservists, and it is possible that there will be military reserve duty call-ups in the future. Our operations could be disrupted by the absence of a significant number of our employees. Such disruption could materially adversely affect our business, financial condition and results of operations.

Because a certain portion of our expenses is incurred in currencies other than the U.S. dollar, our results of operations may be harmed by currency fluctuations and inflation.

Our reporting and functional currency is the U.S. dollar. Most of the royalty payments from our agreements with our development and/or commercialization partners are payable in U.S. dollars, and we expect our revenues from future licensing agreements to be denominated mainly in U.S. dollars or in Euros. We pay a substantial portion of our expenses in U.S. dollars; however, a portion of our expenses, related to salaries of the employees in Israel and payment to part of the service providers in Israel and other territories, are paid in NIS and in other currencies. In addition, a portion of our financial assets is held in NIS and in other currencies. As a result, we are exposed to the currency fluctuation risks. For example, if the NIS strengthens against the U.S. dollar, our reported expenses in U.S. dollars may be higher than anticipated. In addition, if the NIS weakens against the U.S. dollar, the U.S. dollar value of our financial assets held in NIS will decline.

Provisions of our 2010 Option Plan, Israeli law and our Articles of Association may delay, prevent or otherwise impede a merger with, or an acquisition of, our company, or an acquisition of a significant portion of our shares, which could prevent a change of control, even when the terms of such a transaction are favorable to us and our shareholders.

Our 2010 Option Plan provides that all options granted by us will be fully accelerated upon a "takeover" of the Company. A "takeover" is defined in our 2010 Option Plan as an event in which any person, entity or group that was not an "interested party", as defined in the Israeli Securities Law – 1968, on the date of the initial public offering of our securities on the Tel Aviv Stock Exchange, shall become a "controlling shareholder". A “controlling shareholder” for these purposes means a controlling shareholder as defined in the Israel Securities Law, 1968. See “Item 6. Directors, Senior Management and Employees – E. Share Ownership – Option Plan” for a description of interested parties under the Israeli Securities Law – 1968.

The Israeli Companies Law, 1999, or the Israeli Companies Law, regulates mergers, requires tender offers for acquisitions of shares above specified thresholds, requires special approvals for transactions involving directors, officers or significant shareholders and regulates other matters that may be relevant to these types of transactions. For example, a merger may not be consummated unless at least 50 days have passed from the date that a merger proposal was filed by each merging company with the Israel Registrar of Companies and at least 30 days from the date that the shareholders of both merging companies approved the merger. In addition, a majority of each class of securities of the target company must approve a merger. Moreover, the Israeli Companies Law provides that certain purchases of securities of a public company are subject to tender offer rules. As a general rule, the Israeli Companies Law prohibits any acquisition of shares in a public company that would result in the purchaser holding 25% or more, or more than 45% of the voting power in the company, if there is no other person holding 25% or more, or more than 45% of the voting power in a company, respectively, without conducting a special tender offer. The Israeli Companies Law further provides that a purchase of shares or voting rights of a public company or a class of shares of a public company, which will result in the purchaser’s holding 90% or more of the company’s shares or class of shares, is prohibited unless the purchaser conducts a full tender offer for all of the company’s shares or class of shares. The purchaser will be allowed to purchase all of the company’s shares or class of shares (including those shares held by shareholders who did not respond to the offer), if either (i) the shareholders who do not accept the offer hold less than 5% of the issued and outstanding share capital of the company or of the applicable class, and more than half of the shareholders who do not have a personal interest in the offer accept the offer, or (ii) the shareholders who do not accept the offer hold less than 2% of the issued and outstanding share capital of the company or of the applicable class. The shareholders, including those who indicated their acceptance of the tender offer (except if otherwise detailed in the tender offer document), may, at any time within 6 months following the completion of the tender offer, petition the court to alter the consideration for the acquisition. At the request of an offeree of a full tender offer which was accepted, the court may determine that the consideration for the shares purchased under the tender offer was lower than their fair value and compel the offeror to pay to the offerees the fair value of the shares. Such application to the court may be filed as a class action.

In addition, the Israeli Companies Law provides for certain limitations on a shareholder that holds more than 90% of the company's shares, or class of shares.

Pursuant to our articles of association, the size of our board of directors shall be no less than 5 persons but no more than 7, excluding at least two external directors. The directors, except for our external directors, are divided into three classes, as nearly equal in number as possible. At each annual general meeting, the term of one class of directors expires, and the directors of such class are re-nominated to serve an additional three year term that expires at the annual general meeting held in the third year following such election. This process continues indefinitely. Such provisions of our articles of association make it more difficult for a third party to effect a change in control or takeover attempt that our management and board of directors oppose.

Furthermore, Israeli tax considerations may, in certain circumstances, make potential transactions unappealing to us or to some of our shareholders. For example, Israeli tax law does not recognize tax-free share exchanges to the same extent as U.S. tax law. With respect to mergers, Israeli tax law allows for tax deferral in certain circumstances but makes the deferral contingent on the fulfillment of numerous conditions, including a holding period of two years from the date of the transaction during which sales and dispositions of shares of the participating companies are restricted. Moreover, with respect to certain share swap transactions, the tax deferral is limited in time, and when such time expires, the tax becomes payable even if no actual disposition of the shares has occurred.

These and other similar provisions could delay, prevent or impede an acquisition of us or our merger with another company, or an acquisition of a significant portion of our shares, even if such an acquisition or merger would be beneficial to us or to our shareholders. See "Item 10. Additional Information - B. Memorandum and Articles of Association."

It may be difficult to enforce a U.S. judgment against us and our officers and directors named in this Annual Report in Israel or the U.S., or to serve process on our officers and directors.

We are incorporated in Israel. Most of our executive officers and directors listed in this Annual Report reside outside of the U.S., and all of our assets and most of the assets of our executive officers and directors are located outside of the U.S. Therefore, a judgment obtained against us or most of our executive officers and our directors in the U.S., including one based on the civil liability provisions of the U.S. federal securities laws, may not be collectible in the U.S. and may not be enforced by an Israeli court. It may also be difficult for you to affect service of process on these persons in the U.S. or to assert U.S. securities law claims in original actions instituted in Israel.

Your obligations and responsibilities as a shareholder are governed by Israeli law which may differ in some respects from the obligations and responsibilities of shareholders of U.S. companies. Israeli law may impose obligations and responsibilities on a shareholder of an Israeli company that are not imposed upon shareholders of corporations in the U.S.

We are incorporated under Israeli law. The obligations and responsibilities of the holders of our ordinary shares are governed by our articles of association and Israeli law. These obligations and responsibilities differ in some respects from the obligations and responsibilities of shareholders in typical U.S.-based corporations. In particular, a shareholder of an Israeli company has a duty to act in good faith toward the company and other shareholders and to refrain from abusing its power in the company, including, among other things, in voting at the general meeting of shareholders on matters such as amendments to a company's articles of association, increases in a company's authorized share capital, mergers and acquisitions and interested party transactions requiring shareholder approval. In addition, a shareholder who knows that it possesses the power to determine the outcome of a shareholder vote or to appoint or prevent the appointment of a director or executive officer in the company has a duty of fairness toward the company. There is limited case law available to assist us in understanding the implications of these provisions that govern shareholders' actions. These provisions may be interpreted to impose additional obligations and responsibilities on holders of our ordinary shares that are not typically imposed on shareholders of U.S. corporations.

Claims for indemnification by our directors and officers may reduce our available funds to satisfy successful stockholder claims against us and may reduce the amount of money available to us.

The Israeli Companies Law and our Articles of Association permit us to indemnify our directors and officers for acts performed by them in their capacity as directors and officers. The Israeli Companies Law and our Articles of Association provide that a company may not exempt or indemnify a director or an office holder nor enter into an insurance contract, which would provide coverage for any monetary liability incurred as a result of (a) a breach by the director or officer of his duty of loyalty, except for insurance and indemnification where the director or officer acted in good faith and had a reasonable basis to believe that the act would not prejudice the company; (b) a breach by the director or officer of his duty of care if the breach was done intentionally or recklessly, except if the breach was solely as a result of negligence; (c) any act or omission done with the intent to derive an illegal personal benefit; or (d) any fine, civil fine, monetary sanctions, or forfeit imposed on the officer or director. See "Item 6. Directors, Senior Management and Employees – C. Board Practices - Corporate Governance Practices - Exemption, Insurance and Indemnification of Directors and Officers."

We have issued letters of indemnification to our directors and officers, pursuant to which we have agreed to indemnify them in advance for any liability or expense imposed on or incurred by them in connection with acts they perform in their capacity as a director or officer, subject to applicable law. The amount of the advance indemnity is limited to the higher of 25% of our then shareholders' equity, per our most recent annual financial statements, or $5 million.

Our indemnification obligations limit the personal liability of our directors and officers for monetary damages for breach of their duties as directors by shifting the burden of such losses and expenses to us. Although we have obtained directors and officers liability insurance providing coverage for up to $10 million a year, certain liabilities or expenses covered by our indemnification obligations may not be covered by such insurance or the coverage limitation amounts may be exceeded. As a result, we may need to use a significant amount of our funds to satisfy our indemnification obligations, which could severely harm our business and financial condition and limit the funds available to stockholders who may choose to bring a claim against our company. These provisions and resultant costs may also discourage us from bringing a lawsuit against directors and officers for breaches of their duties, and may similarly discourage the filing of derivative litigation by our shareholders against the directors and officers even though such actions, if successful, might otherwise benefit our shareholders.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Our legal and commercial name is RedHill Biopharma Ltd. The company was incorporated on August 3, 2009 and was registered as a private company limited by shares under the laws of the State of Israel. Our principal executive offices are located at 21 Ha'arba'a Street, Tel Aviv, Israel and our telephone number is 972-3-541-3131.

In February 2011, we completed our initial public offering in Israel, pursuant to which we issued 14,302,300 ordinary shares, and 7,151,150 tradable Series 1 Warrants to purchase 7,151,150 ordinary shares for aggregate gross proceeds of approximately $14 million. On December 27, 2012, we completed the listing of our ADSs on The Nasdaq Capital Market. Our ordinary shares are traded on the Tel Aviv Stock Exchange under the symbol "RDHL," our Series 1 Warrants are traded on the Tel Aviv Stock Exchange under the symbol "RDHL.W1," and our ADSs are traded on the Nasdaq Capital Market under the symbol "RDHL".

Our capital expenditures for the years ended December 31, 2013, 2012 and 2011 were $14,000, $5,000 and $139,000, respectively. Our current capital expenditures involve equipment and leasehold improvements.

B. Business Overview

We are an emerging Israeli biopharmaceutical company focused primarily on the development and acquisition of therapeutic candidates. In particular, we acquire or in-license and develop patent-protected new formulations and combinations of existing drugs in advanced stages of development. From inception, we have invested total of $1.56 million on acquisitions.

Our primary therapeutic focus is on inflammatory and gastrointestinal (GI) diseases, including cancers and related conditions.

Depending on the specific development program, our therapeutic candidates are designed to provide improvements over existing drugs by improving their safety profile, reducing side effects, lowering the number of administrations, using a more convenient administration form, providing a cost advantage and/or exhibiting greater efficacy. Where applicable, we intend to seek U.S. Food and Drug Administration approval for the commercialization of certain of our therapeutic candidates through the alternative Section 505(b)(2) regulatory path under the Federal Food, Drug, and Cosmetic Act of 1938, as amended, and in corresponding regulatory paths in other foreign jurisdictions. Our current pipeline consists of six late clinical development therapeutic candidates, two of which have completed bioequivalence clinical trials subject to review and approval by the U.S. Food and Drug Administration and, in some cases, regulatory authorities in other countries.

We generate our pipeline of therapeutic candidates by identifying, rigorously validating and in-licensing or acquiring products that are consistent with our products strategy and that we believe exhibit a relatively high probability of therapeutic and commercial success. Our therapeutic candidates have not yet been approved for marketing and, to date, there have been no meaningful sales. We intend to commercialize our therapeutic candidates through licensing and other commercialization arrangements with pharmaceutical companies on a global and territorial basis. We may also evaluate, on a case by case basis, co-development and similar arrangements and the commercialization of our therapeutic candidates independently.

Our Strategy

Our goal is to become a significant player in the development of pharmaceuticals for treatment of inflammatory and gastrointestinal (GI) diseases, including cancers and related conditions with a particular focus on improvements, enhancements and/or innovative uses of existing drugs.

Key elements of our strategy are to:

- identify and acquire rights to products from companies in the pharmaceutical field, which have encountered cash flow or operational problems or that decide to divest one or more of their products for various reasons. We identify such opportunities through our broad network of contacts and other sources in the pharmaceutical field.

- produce enhancements of existing pharmaceutical products, including broadening their range of indications or launching innovative and advantageous pharmaceutical products based on existing products. Because there is a large knowledge base regarding existing products, the preclinical, clinical and regulatory requirements needed to obtain marketing approval for enhanced formulations are relatively well defined. In particular, clinical study designs, inclusion criteria and endpoints previously accepted by regulators may sometimes be re-used. In addition to reducing costs and time to market, we believe that targeting therapeutics with proven safety and efficacy profiles provides us a better prospect of clinical success.

- acquire rights to and develop products that are intended to treat pronounced clinical needs, have patent protection, and have target markets totaling tens of millions to billions of dollars.

- acquire rights to and develop products based on different technologies designed to reduce our dependency on any specific product technology.

- capitalize on the U.S. Food and Drug Administration's 505(b)(2) regulatory pathway to obtain more timely and efficient approval of our formulations of previously approved products, when applicable. Under the 505(b)(2) process, we are able to seek U.S. Food and Drug Administration approval of a new dosage form, strength, route of administration, formulation, dosage regimen, or indication of a pharmaceutical product that has previously been approved by the U.S. Food and Drug Administration. This enables us to partially rely on the U.S. Food and Drug Administration's findings of safety and/or efficacy for previously approved drugs, thus avoiding the duplication of costly and time consuming preclinical and various human studies. See "Government Regulations and Funding - Section 505(b)(2) New Drug Applications."

- cooperate with third parties to develop and/or commercialize therapeutic candidates in order to share costs and leverage the expertise of others.

Our six current clinical stage therapeutic candidates include "RHB-101", "RHB-102", "RHB-103", "RHB-104", "RHB-105" and "RHB-106" and related research and development programs, the most advanced of which are described below.

Our Therapeutic Candidates

RHB–101

RHB-101 is intended for the treatment of hypertension, heart failure and left ventricular dysfunction (following myocardial infarction) by means of controlled release of an active ingredient known as carvedilol, which is designed to be administered to patients on a once-daily basis. Carvedilol is a nonselective β-adrenergic blocking agent with α1-blocking activity providing its clinical effect through two different mechanisms. β-adrenergic blockade slows the heart rate and promotes its effect by decreasing the work or output of the heart. α1 adrenergic blockade is effected within the vascular system and lowers blood pressure. We believe that our once-daily RHB-101 is an improvement over existing generic carvedilol-containing drugs, which are administered several times per day.

RHB-101 is based on a patented technology for the controlled release of drugs administered orally. The technology is based on a drug-release polymer system built of an external envelope that is consumed at a slow rate, and an internal matrix that breaks down on contact with the fluids of the gastrointestinal system, releasing the drug at a constant rate according to the drug's exposed geometric surface.

We acquired the rights to RHB-101 under a November 18, 2009 agreement with Egalet a/s, pursuant to which we received a worldwide, exclusive and perpetual license to certain patent rights related to RHB-101. See "– Acquisition and License Agreements – License Agreement for RHB-101."

Competition and Market

The pharmaceutical market targeted by RHB-101 has over 200 million users worldwide according to a 2012 report by Scrip Intelligence. According to EvaluaPharma, a provider of market intelligence for the pharmaceutical sector, generic carvedilol products entered this market in 2007. The worldwide target market of RHB-101 is estimated at a total value in excess of $500 million according to sales market data integrated from the European and U.S. 2013 sales data for carvedilol from IMS Health, a provider of information for the health care industry, and 2012 sales data of Coreg CR® from EvaluatePharma, a leading market intelligence and information resource. At present, the market can be divided into two parts:

The first part of the market includes generic drugs based on the immediate release of the generic active ingredient known as carvedilol (such as Coreg® produced by GlaxoSmithKline). These drugs are administered to patients twice a day, due to their relatively short active span, as opposed to the once daily administration of RHB-101. Administration once per day instead of several times per day has the potential to be a significant advantage, including improved compliance, especially for the elderly who commonly take a relatively large number of drugs over long periods of time.

The second part of the market is based on a patented drug known under the trade name of Coreg CR® (produced by GlaxoSmithKline). This drug is an improvement over the generic Coreg® drug, having a longer duration of action and being administered once per day. One of the potential advantages of RHB-101 over Coreg CR® is that RHB-101 is expected to be priced below the current price of Coreg CR®. Further potential advantages indicated by studies conducted to date consist of: (i) a reduced food effect on bioavailability, expected to allow patients to take RHB-101 with or without food while Coreg CR® is indicated to be taken with food and (ii) a markedly reduced dose (approximately 27% less API in mol units).

In 2012, sales of Coreg CR® in the U.S. reached approximately $209 million according to the EvaluatePharma 2012 annual U.S. product sales report. Coreg CR® is not marketed in Europe. The European market of immediate release carvedilol in 2013 was in excess of $200 million according to IMS Health. In 2013, the sale of generic immediate release of carvedilol reached approximately $100 million in the U.S. according to data published by IMS Health. Consolidating sales data for both segments of the market indicate that the worldwide target market of RHB-101 is in excess of $500 million.

To the best of our knowledge, although the U.S. patent on Coreg CR® is expected to expire in the coming years, generic competitors of Coreg CR® may reach the market immediately. In particular, in 2008 Mutual Pharmaceutical Company Inc. submitted an application in the U.S. for approval of a generic version of this drug and reached an agreement with GlaxoSmithKline, pursuant to which GlaxoSmithKline agreed, after several rounds of court hearings, not to sue Mutual Pharmaceutical Company Inc. Entry of generic drugs competing with Coreg CR® may cause a significant decrease in the price of Coreg CR®, thereby reducing the current price differential between this drug and the segment of generic carvedilol-containing drugs.

Clinical Development

We are currently searching for a strategic partner to jointly develop RHB-101.

The following chart summarizes the clinical trial history and status of RHB-101:

Clinical trial name	Development phase of the clinical trial	Purpose of the clinical trial	Clinical trial site	Planned number of subjects of the trial	Number of subjects	Nature and status of the trial	Schedule	Total incurred cost as of December 31, 2013
CL-EG- 01	Phase I	Pharmacokinetic (PK) comparison of once-daily administration of the product in 25 mg concentration against carvedilol, and the impact of food on the product's absorption in the human body	Shandon Clinic, Ireland	30	30	The trial was performed and indicated that food does not have any impact on the absorption of the product	Ended in 2004	-
CL-EG- 02	Phase I	PK comparison of repeat product administration in 25 mg concentration against carvedilol	Shandon Clinic, Ireland	30	30	The trial was performed and indicated that there is PK similarity between the products	Ended in 2004	-
CL-EG- 04	Phase I	PK comparison of once-daily administration of two different product formulations in a concentration of 50 mg against carvedilol	Shandon Clinic, Ireland	12	12	The trial was performed and indicated that one of the formulations is pharmacokinetically preferable	Ended in 2007	-
CL-EG- 09	Phase I	PK comparison of once-daily administration of two different formulations of the product in a concentration of 12.5 mg against carvedilol	Shandon Clinic, Ireland	14	14	The trial was performed and indicated that one of the formulations is pharmacokinetically preferable	Ended in 2007	-
PLT-11	Pilot	Feasibility check of PK comparison of the product with Coreg CR®	RA Chem Pharma India	36	36	The trial was performed and provided initial and partial information on potential comparison with Coreg CR®	Ended in 2011	Approx. $60,000

Supplemental studies will be required as part of the RHB-101 global development program and regulatory strategy.

In March 2013, RedHill held a Scientific Advice meeting regarding RHB-101 with the Danish Health and Medicines Authority (DKMA) Based on the feedback from the DKMA, RedHill believes that no further clinical studies will be required prior to submission of the MAA. The Company plans to focus on certain chemistry, manufacturing and control modules, the completion of which is expected to allow the submission of an MAA.

In May 2013, RedHill held a Type B meeting with the U.S Food and Drug Administration (FDA) regarding RHB-101. Based on the feedback received from FDA, prior to the NDA submission, the Company will be required to conduct a comparative bioavailability study and a dose linearity study.

We cannot predict with certainty our development costs and they may be subject to changes. See "Item 3. Key Information – D. Risk Factors – Risk Related to Our Financial Condition and Capital Requirements."

RHB-102

RHB-102 is a once-daily controlled release oral formulation of ondansetron, a leading member of the family of 5HT-3 serotonin receptor inhibitors. It is intended to prevent chemotherapy and radiotherapy induced nausea and vomiting.

RHB-102 utilizes a technology called CDT® that uses salts to provide a controlled release of ondansetron. The CDT® platform enables controlled release drug design (*i.e.*, measured rate of introduction of active drug) at a relatively low manufacturing cost.

We acquired the rights to RHB-102 under a May 2, 2010 agreement with SCOLR Pharma Inc., pursuant to which we received a worldwide, exclusive and perpetual license to various patent rights and know-how related to RHB-102. See "– Acquisition and License Agreements – License Agreement for RHB-102."

Competition and Market

Nausea and vomiting prevention (anti-emetic) treatments account for a large market share of oncology-support treatments. In 2013, the worldwide market for treatments for prevention of chemotherapy-induced nausea and vomiting was estimated to have exceeded $1.4 billion. Of this market, 5-HT3 serotonin receptor inhibitors are estimated to have exceeded $940 million in 2013 (RHB-102 belongs to this family of inhibitors) according to 2013 sales data reports from EvaluatePharma.

To the best of our knowledge, the main competitors of RHB-102 are other 5-HT3 serotonin receptor inhibitors. This class of medication is derived from the active ingredient ondansetron (such as the generic drug marketed in the U.S. under the trade name Zofran®, produced by GlaxoSmithKline). Additional first-generation generic drugs from the same family contain the active ingredient granisetron (marketed in the U.S. under the name Kytril®, produced by Hoffman-La Roche Ltd.) or the active ingredient dolasetron (marketed in the U.S. under the name of Anzemet®, produced by Sanofi-Aventis Group). In addition, a second-generation drug containing the active ingredient palonosetron is still under patent and marketed in the U.S. under the name Aloxi, by Eisai Pharmaceuticals Inc., or Eisai.

Zofran® is a leading 5HT-3 serotonin receptor inhibitor drug, reaching worldwide sales of approximately $106 million in 2013 according to data from EvaluatePharma. This drug contains the active ingredient ondansetron and became generic in December 2006. The drug is available in oral tablet and intravenous (IV) formulations. The price of the drug varies broadly and reaches up to $85 for a single chemotherapy treatment.

Granisetron and dolasetron are additional first-generation generic drugs from the same family of 5HT-3 serotonin receptor inhibitors. Although there are no significant differences in the mechanisms of action between them and ondansetron, sales of ondansetron products exceed those of granisetron and dolasetron. The generic drugs containing these active ingredients are available both orally and intravenously and by transdermal patch. The price of the Granisetron tablets is approximately $40-$60 for each chemotherapy treatment (5 days of anti-emetic therapy) and the price of Anzemet® (dolasetron) tablets is approximately $350 for each chemotherapy treatment (5 days of anti-emetic therapy). Their relatively high cost is one of the reasons that ondansetron-based drugs are more widely used.

Aloxi® is a second-generation drug from the same family of inhibitors. To the best of our knowledge, it is currently administered only intravenously (IV) in the U.S. It has longer duration of action in the body and is the only drug in this family that was approved for use with an indication of nausea and vomiting prevention for more than 24 hours from the chemotherapy treatment (delayed onset). This means that the drug continues to be effective from the time of its administration for more than the ensuing 24 hours. The price of this drug is significantly higher than Zofran® and is estimated at approximately $400 per treatment. To the best of our knowledge, an oral version of this drug was approved in August 2008 in the U.S., but is not currently marketed in the U.S.

The potential advantages of RHB-102 compared to Zofran® are significant. A single dose of RHB-102 is anticipated to prevent chemotherapy or radiotherapy induced nausea and vomiting over a time window of approximately 24 hours. This effectiveness period is significantly longer than the effective time of Zofran® 8mg, which is indicated to be administered several times a day. This is potentially advantageous for cancer patients undergoing chemotherapy and radiation treatments that would prefer to avoid the need to take additional drugs (tablets) during the day after the treatment, when they may suffer attacks of nausea and vomiting.

The potential advantages of RHB-102 compared to Aloxi®, the only drug that has a relatively long-term effect (beyond 24 hours, as stated above), is the delivery method and price. Aloxi® is a drug that in the United States is delivered intravenously (IV) and costs approximately $400 per dose. RHB-102 is planned to be delivered orally, in tablet form. Oral administration is expected to allow independent self-administration by patient, save patient travel time to the clinic or hospital and reduce health care professional work load, thus significantly lowering its cost as opposed to currently available IV alternatives. To the best of our knowledge, there are several plans to develop new products in the area of nausea and vomiting prevention, including the development of a product that directly competes with RHB-102, for controlled release of ondansetron, based on a different technology of controlled release, by the Eurand N.V. (which merged with Axcan Pharma, and changed its name after the merger to Aptalis Pharma Inc.). To the best of our knowledge, this product completed Phase II trials.

Clinical Development

In April 2012, we completed a comparative bioavailability trial, comparing the bioavailability of RHB-102 (24mg) administered once to Zofran® 8mg tablet administered three times over a 24 hour period. The final results of the study, which we received in June 2012, showed that one dose of RHB-102 (24mg) provides patients with comparable exposure to Zofran® 8mg tablet administered three times over a 24 hour period.

In September 2013, we completed a single-dose fed/fasted crossover study of RHB-102. The increase in bioavailability for the extended-release formulation after administration in the fed state is consistent with the pharmacokinetics of Zofran® (ondansetron) immediate release formulation in the fed state.

In October 2013, we completed a 3-way crossover comparative bioavailability study of RHB-102 given once daily for 5 consecutive days vs. Zofran 8mg given twice daily for two days (the approved regimen for Moderately Emetogenic Chemotherapy Induced Nausea and Vomiting (MECINV) vs. Zofran 24mg in single administration given for one day (the approved regimen for Highly Emetogenic Chemotherapy Induced Nausea and Vomiting HECINV).

In order to carry out clinical trials for RHB-102, in November 2011 we entered into an agreement with our Canadian service provider which entered into a back-to-back agreement with Algorithme Pharma Inc., a Canadian clinical research organization specializing in the performance of clinical trials. Algorithme Pharma Inc. performed the clinical trials described above for RHB-102 from February to April 2012. See "– Master Service Agreement with 7810962 Canada Inc."

The following chart summarizes the clinical trial history and status of RHB-102:

Clinical trial name	Development phase of the clinical trial	Purpose of the clinical trial	Clinical trial site	Planned number of subjects of the trial	Number of subjects	Nature and status of the trial	Schedule	Total incurred cost as of December 31, 2013
Biovail 838332783283	Phase I	PK test of three different formulations of the product in a concentration of 24 mg compared to Zofran 8 mg administered 3 times per day	Biovail Contact Research, Canada	30	30	The trial was performed and indicated that one of the formulations is suitable for continuing the development process	Ended in 2007	-
ODO-P1-494	Comparative Bioavailablity	Comparison between once-daily administration of several formulations of RHB-102 to administration of Zofran® 8mg three times per day, 8 hours apart	Algorithme Pharma, Canada	26	26	Successfully completed the study, meeting its objectives of bioequivalence as defined by U.S. Food and Drug Administration	Ended in Q2 2012	Approx. $1.7 million

ODO-P2-665	Comparative Bioavailability	Comparison of the bioavailability of RHB-102 with and without food	Algorithme Pharma, Canada	14	14	Successfully completed the study	Completed in September 2013	$0.1 million
ODO-P3-520	Comparative Bioavailability	Study of ondansetron plasma accumulation over multiple day dosing of RHB-102, in comparison with administration of Zofran® 8mg twice per day for 2 days, in comparison to Zofran® 24mg given once	Algorithme Pharma, Canada	18	18	Successfully completed the study	Completed in October 2013	$0.3 million
ODO-P4-420	Comparative Bioavailability	Comparison of the bioavailability of RHB-102	Algorithme Pharma, Canada	18		To support EU regulatory path	Expected to start in Q 2 2014	
To be determined	Phase III	Randomized double blind placebo controlled phase III study in undisclosed indication	To be determined	To be determined		Evaluating the safety and efficacy of RHB-102 in a new undisclosed indication	To be determined	

In light of the positive results of the clinical trials, we are currently in discussions with the U.S. Food and Drug Administration regarding the U.S. marketing approval pathway for RHB-102. In view of the ongoing discussions with the U.S. Food and Drug Administration, and in parallel to pursuing an NDA for chemotherapy and radiotherapy induced nausea and vomiting, we are pursuing an additional new indication. If approved by the U.S. Food and Drug Administration, we expect that the new indication would significantly expand the potential market opportunity for RHB-102, and we are considering to conduct a Phase III study in order to provide support for the submission of an NDA targeting this additional indication.

In parallel to exploring approval pathways in the U.S. for multiple indications, we are planning to pursue a Marketing Authorization Application (MAA) in Europe for chemotherapy and radiotherapy induced nausea and vomiting. To that extent, we intend to conduct a comparative bioavailability study of RHB-102 against the European sourced Zofran reference listed drug, as required by European regulations.

We cannot predict with certainty our development costs and they may be subject to changes. See "Item 3. Key Information – D. Risk Factors – Risk Related to Our Financial Condition and Capital Requirements."

RHB-103

RHB-103 is an oral thin film formulation of rizatriptan intended for the treatment of acute migraine headaches. Migraine is a neurovascular disorder (related to nerves and blood vessels) characterized by recurrent headaches in one side or both sides of the head. In general, migraine headaches are accompanied by nausea and increased sensitivity to light and sound. Migraines are generally treated through the usage of triptans, a class of molecules that narrow (constrict) blood vessels in the brain in order to relieve swelling and other migraine symptoms. Examples of triptans include sumatriptan, zolmitriptan and rizatriptan, the basis of RHB-103. RHB-103 rapidly dissolves in the mouth.

The product is based on a patented technology called "VersaFilm™." This technology allows the production of thin film strips that dissolve rapidly in the mouth, allowing the drug to be absorbed through the oral mucosa and into the bloodstream. The proprietary VersaFilm™ technology is a novel, non-mucoadhesive, fast dissolving oral dosage form.

The VersaFilm™ platform offers potential advantages that include fast absorption of the drug and the convenience of use compared to conventional tablets.

We acquired the rights to RHB-103 under an August 26, 2010 joint development and commercialization agreement with IntelGenx Corp., pursuant to which we received a worldwide, exclusive and perpetual license to various patent rights and know-how related to RHB-103. See "– License Agreement for RHB-103" for more information regarding this agreement.

Competition and Market

To the best of our knowledge, the main marketing competitors of RHB-103 are oral drugs from the triptan family, such as rizatriptan from Merck and Co., Inc., which is marketed in the U.S. under the name of Maxalt® and in generic form since 2012, and sumatriptan, produced by GlaxoSmithKline and marketed in the U.S. as Imitrex® and in generic form since 2006. The target market for RHB-103 is the triptan market, which was estimated at approximately $1 billion worldwide in 2013 according to a 2013 annual sales report from EvaluatePharma, a leading market intelligence and information resource.

In December 2012, the patent on rizatriptan expired and as of the date of this filing, there are various generic versions of Maxalt® and of MaxaltMLT® available for prescription. According to the 2013 annual report of Merck and Co., Inc., the worldwide direct sales of Merck and Co.'s rizatriptan based drugs in 2013 were $149 million. According to an article in the journal Current Pain and Headache Reports 2004 by Dr. David W. Dodick et. al., Rizatriptan (Maxalt®) is considered one of the oral triptans with the highest effectiveness among the triptan family.

Until December 2012, sumatriptan was the leading generic triptan competitor on the market. While its price is generally lower than the rizatriptan based drugs on the market, it ranks lower than these drugs in terms of effectiveness. We believe that this limited efficacy will likely also be true with respect to the single-use, battery-powered patch that actively delivers sumatriptan which was developed by NuPathe, Inc., approved by the FDA in January 2013 and acquired by Teva Pharmaceutical Industries Ltd.

We believe that RHB-103 will compare favorably to the other triptan drugs due to the fact that it is delivered through oral dissolution, rather than through conventional tablets. This feature may be especially appealing to migraine patients who suffer from migraine-related nausea, which according to an article published by Lipton RB *et al.* is estimated to affect 80% of all of total migraine population. We believe that RHB-103 will also be advantageous to pediatric and geriatric populations who often struggle with swallowing capsules with water.

Clinical Development

In April 2012, we and IntelGenx, Corp. completed a bioequivalence clinical trial in Canada, subject to the U.S. Food and Drug Administration review and approval, in order to examine the pharmacokinetic equivalence between the soluble film of RHB-103 and rizatriptan of Merck & Co. Inc. (Maxalt MLT®), using 26 volunteers. The final results of the clinical trial, which we received in August 2012, demonstrated that RHB-103 met its specified endpoints and the U.S. Food and Drug Administration criteria in all parameters for bioequivalence with rizatriptan of Merck & Co. Inc. (Maxalt MLT®).

On November 7, 2012, we and IntelGenx Corp. held a pre-New Drug Application, or pre-NDA, meeting with the FDA.

Based on the clinical trial and the outcome of the pre-NDA meeting, we and IntelGenx Corp. filed an New Drug Application (NDA) with the U.S. Food and Drug Administration (FDA) for U.S. marketing approval under the 505(b)(2) regulatory path for RHB-103 in March 2013. FDA indicated that the NDA is subject to a standard 10-month review period and will have a Prescription Drug User Fee Act ("PDUFA") goal date of February 3, 2014. The PDUFA action goal date is the targeted date for FDA to complete its review of the NDA.

On February 4, 2014, we and IntelGenx Corp. announced that we had received a complete response letter from FDA indicating certain matters that would need to be addressed prior to obtaining approval for marketing. These matters related primarily to third party Chemistry, chemistry, manufacturing and controls issues, as well to packaging and labeling of the film. The FDA's letter did not raise any safety issues or questions regarding the results of the clinical trials. As such, we believe that responses to these questions can be delivered to FDA within a few weeks.

In November 2013, we and IntelGenx Corp. reported a positive European Scientific Advice meeting with the German Federal Institute for Drugs and Medical Devices (BfArM) regarding RHB-103. The Scientific Advice meeting with the BfArM provided sufficient clarity with regard to the regulatory path. Consequently, RedHill plans to conduct a small bioavailability study comparing RHB-103 to the European reference product for the purpose of submitting a Marketing Authorization Application (MAA) for marketing approval of RHB-103 in the EU in 2014.

The following chart summarizes the clinical trial history status of RHB-103:

Clinical trial name	Development phase of the clinical trial	Purpose of the clinical trial	Clinical trial site	Planned number of subjects of the trial	Number of subjects	Nature and status of the trial	Schedule	Total incurred cost as of December 31, 2013
PLT—008-09	Phase I	PK comparison with a parallel product	RA Chem Pharma, India	10	10	The trial was performed and indicated similarity between the PK profile of the product and the profile of the reference product	Ended in 2009	-
RZA-P9-688	Comparative Bioequivalence	PK comparison with Maxalt MLT®	Algorithme Pharma, Canada	26	26	Successfully completed the study demonstrating bioequivalence as defined by U.S. Food and Drug Administration	Ended in Q2 2012	Approx. $1.1 million
RZA-P3-697	Comparative Bioequivalence	PK comparison with Maxalt Lingua	Algorithme Pharma, Canada	26	26	Expected to start in Q1 2014	RZA-P3-697	Comparative Bioequivalence

Supplemental studies may be required as part of the RHB-103 global development program and regulatory strategy.

We cannot predict with certainty our development costs and they may be subject to changes. See "Item 3. Key Information – D. Risk Factors – Risk Related to Our Financial Condition and Capital Requirements."

RHB-104

RHB-104 is intended for the treatment of Crohn's disease which is a serious inflammatory disease of the gastrointestinal system that may cause severe abdominal pain and bloody diarrhea, malnutrition and potential life-threatening complications.

RHB-104 is a patented combination of clarithromycin, clofazimine and rifabutin, three generic antibiotic ingredients, in a single capsule and was developed to treat *Mycobacterium avium paratuberculosis,* or MAP, infections in Crohn's disease. According to a 2007 article in The Lancet Infectious Diseases by Feller et. al., which contains a meta-analysis of 18 published scientific and clinical studies, Crohn's disease patients are seven times more likely to be infected with MAP than non-Crohn's patients.

To date, Crohn's disease has been considered to be an autoimmune disease, but the exact pathological mechanism is unclear. Dr. Robert J. Greenstein suggested in The Lancet Infectious Diseases, 2003 that Crohn's disease is caused by MAP, the same organism responsible for a major cause of disease in animal agriculture production, domestic and wild animals. This hypothesis is supported by an expanding number of scientific and clinical studies published in peer reviewed journals since a National Institute of Allergy and Infectious Diseases conference that focused on MAP in Crohn's disease took place in 1998. Specific genetic loci like NOD2 have been implicated in Crohn's disease and are suspected of decreased recognition of MAP in the body.

In 2011, we obtained U.S. Food and Drug Administration "Orphan Drug" status for RHB-104 for the treatment of Crohn's disease in the pediatric population. See – "Government Regulations and Funding Orphan Drug Designation."

The formulation for RHB-104 is presently complete and manufacturing of the all-in-one capsules for our clinical trials and NDA submission is currently in process. Stability testing of the clinical trial material is ongoing.

We acquired the rights to RHB-104, RHB-105 and RHB-106 pursuant to an asset purchase agreement with Giaconda Limited, a publicly traded Australian company. See "Acquisition and License Agreements – Acquisition of RHB-104, RHB-105 and RHB-106."

In recent years, a diagnostic technology enabling the identification of the presence of MAP bacterial DNA in patients was developed and patented by Professor Saleh Naser of the University of Central Florida in Orlando. On September 15, 2011, we entered into an agreement with the University of Central Florida Research Foundation, Inc., pursuant to which we acquired the exclusive rights in this patented diagnostic test. See "– Acquisition and License Agreements – License Agreement related to RHB-104."

On February 12, 2012, we entered into an agreement with Quest Diagnostics Ltd. to develop a commercial diagnostic test for detecting the presence of MAP bacteril DNAa in the blood based upon the rights we acquired from University of Central Florida Research Foundation, Inc. We intend to use this test in connection with our planned RHB-104 clinical trials and potentially in future commercial applications of RHB-104.

Market

According to a report on the epidemiology of Inflammatory Bowel Disease published by Datamonitor in August 2012, there were approximately 534,000 Crohn's patients in the U.S. in 2011, which number is expected to increase by 12% to approximately 598,800 by 2021. The disease is now considered to be the second most common chronic inflammatory disorder after rheumatoid arthritis. According to Dr. Andrew Yu in an article published in Current Medical Research Opinions in 2008, the total direct medical cost of Crohn's disease in the U.S. was estimated to be $7.8 billion to $11.2 billion in 2006. Including indirect costs, the total economic burden of Crohn's disease was estimated to be $10.9 billion to $15.5 billion.

The MAP bacterium is suspected of being a major factor in causing the inflammatory symptoms of Crohn's disease patients. According to a study by Professor Saleh Naser et. al. in 2004 in The Lancet Infectious Diseases, approximately 40-50% of Crohn's disease patients have been found to be infected with these bacteria. EvaluatePharma, a leading market intelligence and information resource, estimates the market of drug treatments for Crohn's disease to have exceeded $4 billion worldwide in 2013 and estimates the worldwide market for drug treatment of Crohn's disease to reach $5 billion by 2015.

Competition

Unlike other drugs on the market for the treatment of Crohn's disease which are immunosuppressive agents, RHB-104 is intended to directly address the suspected cause of the disease, MAP bacterial infection. To the best of our knowledge, there is no other drug approved for marketing that targets infections of MAP bacteria in Crohn's disease patients.

Currently available drugs on the market for the treatment of Crohn's disease offer only symptomatic relief, the effects of which are largely temporary and accompanied by numerous adverse effects. A report of these side effects is shown in the following chart published by Dr. Carol Nacy et. al. in a report from the American Academy of Microbiology that was published in June 2007.

Drug Family	Example of Drug from the Family	Effect	Common Side Effects
Corticosteroids	Prednisone	Relatively good effectiveness, for some patients only.	Headaches, swinging moods, muscle and bone weakness, heart failure, diabetes and risk of infections.
Immunomodulatory drugs	6-Mercaptopurine Methotrexate	High effectiveness, but only for a certain time and for some patients.	Suppresses the immune system causing risks of infection or even cancer, negative side effects on the liver, kidneys and blood.
Biological agents –Anti-TNF-α drugs. The TNF (Tumor Necrosis Factor) is a component of the immune system.	infliximab Adalimumab Certolizumab pegol	Administered intravenously (IV) or subcutaneously every 1-8 weeks. Effective for some patients (30-40%). Effectiveness decreases over time.	Suppresses a central component of the immune system. Risk of infectious diseases, cancer and damage to the nervous system.

We may also be exposed to potentially competitive products which may be under development to treat Crohn's disease, including Sequella's CM Analog, an innovative cellular therapy with stem cells by Hospital Clinic in Barcelona, Spain, which is in early stage of development, and new biological and other anti-TNFα therapies which are under development to treat Crohn's disease.

Clinical Development

We are currently conducting our first clinical trial in North America and Israel (MAP US), and potentially other countries, as well as preparing a second clinical trial in Europe, before potentially submitting applications for marketing approval for RHB-104 from the U.S. Food and Drug Administration through the 505(b)(2) regulatory path. These trials, based on the analysis and data of a Phase III trial conducted in Australia, are designed as a Phase III trial for Crohn's disease patients in North America and Israel, and a Phase III trial for Crohn's disease patients in at least six countries in Europe. In the Phase III clinical trial in Australia, sponsored by Pharmacia and published by Professor Warwick Selby et al in 2007 in the medical journal Gastroenterology, the primary objectives were to evaluate the ratio of patients with recurrent symptoms of the disease following initial induction of remission with16 weeks of treatment. Subjects were subsequently assessed at 52, 104 and 156 weeks. The main secondary objective was the percent of patients whose achieved clinical remission at 16 weeks. Although the study did not meet the main objective of showing a difference in relapse rate with long-term treatment, there was a statistically significant difference between the treatment groups in the percentage of subjects in remission at week 16. Professor Marcel Behr and Professor James Hanley from McGill University published a re-analysis of the study in The Lancet Infectious Diseases in June 2008 based on the intent-to-treat (ITT) principle and found that there was a significant statistical advantage for the active therapy over the placebo throughout the period of administration that disappeared once the active therapy was discontinued.

The trial of RHB-104 in North America and Israel is being led by Professor David Y. Graham, MD, from Baylor College of Medicine, Houston, Texas, U.S., while the clinical trial of RHB 104 in Europe will be led by Professor Colm O'Morain, MD, of Meath and Adelaide Hospital, Dublin, Ireland.

We are also currently examining the possibility of carrying out clinical trials on pediatric patients that suffer from Crohn's disease, a population for which RHB-104 received "Orphan Drug" status in 2011. If successful in these trials, we intend to apply for regulatory approval of a pediatric indication of RHB-104.

On October 21, 2012, we entered into an agreement, with our Canadian service provider which entered into a back-to-back agreement with Corealis Pharma, Inc., a Canadian drug manufacturer, to manufacture and supply RHB-104 for our clinical trials. See " – Manufacturing Agreement Related to RHB-104."

In June 2011, we entered into an agreement with our Canadian service provider, which entered into a back-to-back agreement with PharmaNet Canada Inc. for the provision of clinical trial services for the RHB-104 adult studies in North America and Europe. In March 2012, our Canadian service provider entered into another agreement with PharmaNet Canada Inc. for the provision of clinical trial services for a pediatric trial of RHB-104. We have not yet set a date for starting the pediatric clinical trial, nor have we applied for U.S. Food and Drug Administration approval to undertake this trial. See "– Master Service Agreements with Canadian service provider" and see also "– Clinical Services Agreement related to RHB-104."

Subsequent to our discussions with the U.S. Food and Drug Administration for approval to conduct the North American trial based upon an Investigative New Drug (IND) approved by the U.S. Food and Drug Administration on July 18, 2007, we made a number of changes to the original protocol. On August 29, 2012, we revised the IND filed by Giaconda with the submission of a new Phase III protocol to the U.S. Food and Drug Administration, and after 30 days, the IND became effective. Based upon the response from the U.S. Food and Drug Administration on issues relating to the clinical study, additional changes have been made, and will be made, to the clinical study in North America and Israel.

Approximately 240 Crohn's disease subjects are expected to participate in the clinical trial in North America and Israel, and potentially other countries. Half of the patients will receive RHB-104 and half will receive a placebo drug over a period of approximately six months to determine efficacy, with and additional follow 6 month follow-up period to further investigate efficacy, maintenance and safety. A Clinical Trial Application (CTA) may be submitted in Europe in the coming months.

The following chart summarizes the clinical trial history and status of RHB-104 and its earlier individual active agents:

Clinical trial author/design-nation	Development phase of the clinical trial	Purpose of the clinical trial	Clinical trial site	Planned number of subjects of the trial	Number. of subjects	Nature and status of the trial	Schedule	Total incurred cost as of December 31, 2013
Borody 2002	Phase IIa	Examining the effect of the treatment on Crohn's disease patients	Center for Digestive Disease, Australia	12	12	Performed	Ended in 2002	
Borody 2005	Phase II	Examining the effect of the treatment on Crohn's disease patients	Center for Digestive Disease, Australia	52	52	Performed	Ended in 2005	
Selby	Phase III	Examining the effect of the treatment with the product on Crohn's disease patients	20 clinical centers in Australia	213	211	The trial was performed and indicated promising improvement rates, although it did not meet the main trial objective, as defined	Published in 2007	
Biovail PK study 2007	PK Study	Optimize the formulation of RHB-104 on a PK basis.	Toronto, Ontario	24	24	Trial compared two formulations to determine the optimum formulation for RHB-104	Ended in 2007	
MAP US	Phase III (N. America and Israel – "MAP US")	Examining the product's effectiveness in alleviating symptoms of Crohn's disease in patients	Approx. 37 clinical centers in the US, 11 in Israel and 5 in Canada	240		Phase III trial in North America and Israel has commenced	First patient entered study in Q3 2013	$5.1 million
To be determined	Phase III (Europe – "MAP Europe")	Examining the product's effectiveness in alleviating symptoms of Crohn's disease in patients	To be determined	To be determined		Under examination		
Food Effect Study	Phase I PK Study	Examining the effect of food versus fasting on the pharmacokinetics of the product	Quebec, Canada	84	84	In process	Clinical Study Report expected mid-February, 2014	
RHB-P2-753	Phase 1	Drug-drug interaction study	Algorithme Pharma, Canada	36			Expected to start in Q1 2014	

Supplemental studies will be required as part of the RHB-104 global development program and regulatory strategy.

We cannot predict with certainty our development costs and they may be subject to changes. See "Item 3. Key Information – D. Risk Factors – Risk Related to Our Financial Condition and Capital Requirements."

Multiple Sclerosis

We have performed several pre-clinical studies including three pre-clinical studies in an experimental autoimmune encephalomyelitis (EAE) mouse model of Multiple Sclerosis (MS) to investigate the potential impact of RHB-104 in treating MS. The first pre-clinical study measured cytokine production (biomarkers of inflammation) and demonstrated that the RHB-104 treatment led to a significant reduction of pro-inflammatory cytokine concentrations of IL-6 and TNF, which are associated with inflammation and MS, compared to the control group. The second pre-clinical study measured the efficacy of RHB-104 as prophylactic therapy, and the treatment with RHB-104 demonstrated a significant reduction in the inflammatory area and level of demyelination, compared with the control group. The third pre-clinical study measured relapses, demonstrating RHB-104's efficacy in significantly reducing the incidence of relapse, compared with the control group. Following these pre-clinical studies, we are conducting a Phase IIa proof of concept clinical trial at two sites in Israel. This clinical trial was initiated in June 2013 with interim results expected during the fourth quarter of 2014.

MS is an inflammatory, demyelinating, and neurodegenerative disease of the central nervous system of uncertain etiology that exhibits characteristics of both infectious and autoimmune pathology. There is a growing consensus in the medical community that a dysregulated immune system plays a critical role in the pathogenesis of MS.

The following chart summarizes the clinical trial history and status of RHB-104-MS:

Trial name	**Development phase**	**Purpose of the trial**	**Clinical trial sites**	**Planned number of subjects of the trial**	**Number. of subjects currently enrolled**	**Nature and status of the trial**	**Schedule**	**Total incurred cost as of December 31, 2013**
Experimental Autoimmune Encephalomyelitis (EAE) Mouse T-cell Function Study	Pre-Clinical	Measure cytokine production as a measure of inflammation in EAE mice treated with RHB-104 vs. negative controls	-				Completed 2012	
Experimental Autoimmune Encephalomyelitis (EAE) Prophylaxis Study	Pre-Clinical	Scoring EAE severity in mice treated prophylactically with RHB-104 vs. negative controls	-				Completed 2012	
Experimental Autoimmune Encephalomyelitis (EAE) Relapse Study	Pre-Clinical	Scoring EAE severity in mice treated with RHB-104 vs. negative and positive controls	-				Completed 2012	
Lipopolysaccharide (LPS)-induced cytokine production study	Pre-Clinical	Measure LPS induced cytokine production in C57BL/6 mice treated with RHB-104 vs. negative and positive controls	-				Completed 2013	
CEASE-MS	Phase IIa	Exploratory	Israel	16	0	In process	Interim results expected in Q1 2015	$0.3 million

Additional studies will be required as part of the RHB-104 Multiple Sclerosis global development program and regulatory strategy.

We cannot predict with certainty our development costs and they may be subject to changes. See "Item 3. Key Information – D. Risk Factors – Risk Related to Our Financial Condition and Capital Requirements."

RHB-105

RHB-105 is intended for the eradication of *H. Pylori* bacterial infection in the gastrointestinal tract. RHB-105 is a combination of three approved drug products – omeprazole, which is a proton pump inhibitor (prevents the secretion of hydrogen ions necessary for digeston of food in the stomach), and amoxicillin and rifabutin which are antibiotics. RHB-105 is administered to patients orally.

Chronic infection with *H. Pylori* irritates the mucosal lining of the stomach and small intestine. The original discovery of the *H. Pylori* bacteria and its association with peptic ulcer disease, warranted the Nobel Prize in 2005. *H. Pylori* infection has since been associated with a variety of outcomes which include: dyspepsia (non-ulcer or functional), peptic ulcer disease (duodenal ulcer and gastric ulcer), primary gastric B-cell lymphoma, vitamin B12 deficiency, iron deficiency anemia and gastric cancer.

Gastric cancer is the second most frequent cancer worldwide and is associated with a poor prognosis (5-year survival rate of only 10-15% in patients with advanced disease). Almost all gastric cancer is now known to be attributable to *H. pylori* infection, and *H. pylori* eradication seems to either eliminates, stabilizes, or reduces risk for progression to gastric cancer, depending upon the severity and extent of damage present when the *H. pylori* infection is cured.

As noted above, we acquired the rights to RHB-105 pursuant to an agreement with Giaconda Limited. See "– Acquisition and License Agreements – Acquisition of RHB-104, RHB-105 and RHB-106."

Competition and Market

The most popular treatments of *H. Pylori* type bacteria combine clarithromycin or metronidazole antibiotics with amoxicillin and a proton pump inhibitor. Such current standard of care treatments fail in more than 20% of the patients due to the development of antibiotic resistance, as reported by Dr. Lennita Wannmacher in a 2011 report submitted to the World Health Organization. The potential advantage of RHB-105 over these drugs (such as PrevPac® of Takeda Pharmaceuticals NA and Pylera® of Aptalis Pharma) was shown in a Phase II study comprising 130 subjects, in which RHB-105 was shown to eradicate *H. Pylori* in over 90% of treated patients who failed previous eradication attempts using the current standard of care treatment, as published in the 2006 study report by Dr. TJ. Borody, et. al. in Alimentary Pharmacology & Therapeutics.

Approximately three million *H. Pylori* infected patients are treated per annum in the U.S. according to a 2007 report by Colin W. Howden, MD, et. al. in The American Journal of Managed Care. Based on this figure, combined with the price of current treatments, we estimate that the U.S. market of RHB-105 to be between $1 billion and $1.5 billion.

Clinical Development

RHB-105 completed a Phase II clinical trial in Australia. A phase III study in the US is currently underway. We intend to seek marketing approval for RHB-105 from the U.S. Food and Drug Administration through the 505(b)(2) regulatory path.

We entered into an agreement with Professor David Y. Graham, MD, from Baylor College of Medicine, Houston, Texas, U.S., to serve as the lead investigator of the first Phase III clinical trial of RHB-105.

The following chart summarizes the clinical trial history and status of RHB-105:

Clinical trial name	Development phase of the clinical trial	Purpose of the clinical trial	Clinical trial site	Planned number. of subjects of the trial	Number of Subjects	Nature and status of the trial	Schedule	Total incurred cost as of December 31, 2013
-	Phase IIa	Examining the product's effectiveness in treating *H. Pylori* infections in patients for whom standard of care had failed to treat the infection	Center for Digestive Disease, Australia	130	130	The trial was performed and indicated that the treatment is effective for bacteria patients for whom standard of care had failed to treat the infection	Ended in 2005	-
TBD	Comparative Bioavailability	Comparing the bioavailability of RHB-105 to the bioavailability of an equivalent dose of commercially available active ingredients	Algorithme Pharma Canada	16	15	Successfully completed	Completed in December 2013	$0.2 million
ERADICATE Hp	Phase III	Examining the effectiveness, safety and pharmacokinetics of the final formulation	8 sites in the US	90	TBD	Initiated Actively enrolling patients	Completion expected by 3Q2014first patient dosed in Dec 2013	$0.9 million

Supplemental studies will be required as part of the RHB-105 global development program and regulatory strategy.

We cannot predict with certainty our development costs and they may be subject to changes. See "Item 3. Key Information – D. Risk Factors – Risk Related to Our Financial Condition and Capital Requirements."

RHB-106

RHB-106 is a tablet intended for the preparation and cleansing of the gastrointestinal tract prior to the performance of abdominal procedures, including diagnostic tests, such as colonoscopy, barium enema or virtual colonoscopy, as well as surgical interventions, such as laparotomy.

As noted above, we acquired the rights to RHB-106 pursuant to an agreement with Giaconda Limited. See "– Acquisition and License Agreements – Acquisition of RHB-104, RHB-105 and RHB-106."

Competition and Market

According to a 2012 report by EvaluatePharma, the world market of products intended for cleansing the gastrointestinal system was estimated at approximately $1.4 billion in 2013.

To the best of our knowledge, the main competitors for RHB-106 are gastrointestinal cleansing products based on polyethylene glycol (PEG 3350). These products are delivered in the form of water-soluble powder, and require users to drink between 2-4 liters of solution before performance of the gastroenterological procedure. In addition to the need to drink considerable amounts of solution, a common side effect that raises difficulties with users is the accompanying harsh and unpleasant taste leading to potential difficulties with patient compliance. RHB-106 offers the potential for improved patient compliance because it is tasteless and eliminates the need for drinking liters of poor tasting electrolyte solution. RHB-106 also has an advantage compared to currently available tableted products in the field, in that it does not contain sodium phosphate, an active ingredient linked with a risk of nephrotoxicity.

An additional product, called PrepoPik™ in the U.S. is manufactured by Ferring Pharmaceuticals and received Food and Drug Administration approval on July 17, 2012. The product, marketed under the name PicoPrep™ in other countries, is based on an active chemical ingredient called sodium picosulfate, the same active ingredient used in RHB-106. This product is also used for clearing the gastrointestinal system and it is given in the form of a water-soluble powder and requires drinking quantities of fluids.

Products administered in the form of tablets or capsules that were released on the market in the U.S., such as OsmoPrep® and Visicol® (produced by Salix Pharmaceuticals Inc.) and Fleet (produced by C.B. Fleet Company, Inc., or C.B. Fleet), are based on a chemical substance called sodium phosphate. In December 2008, the U.S. Food and Drug Administration published a severe warning against the use of these products due to rare but severe side effects linked to kidney damage. As a consequence of this development, the over-the-counter products of C.B. Fleet were recalled from the market, while the prescription products must carry a severe warning (black box label). As announced by Salix Pharmaceuticals Inc., following the black box warning received from the U.S. Food and Drug Administration, sales in 2009 of these products declined by 39% compared to 2008.

A leading product among the PEG 3350 family of products is MoviPrep®, marketed by Salix Pharmaceuticals, Inc. in the U.S. and by Norgine in Europe. Its price in the U.S. varies from $40 to $60 per dose. It requires drinking of about 2 liters of solution and some users report it has an unpleasant taste. EvaluatePharma, a leading market intelligence and information resource, estimates that the annual U.S. sales of MoviPrep® in 2013 were approximately $77 million. The potential advantage of RHB-106 over the current competitor products of the PEG 3350 type (such as MoviPrep®), as well as over PicoPrep™, is that it is tasteless, eliminates the need to drink several liters of solution, and spares the patient the exposure to the harsh tastes that may accompany these products. RHB-106 also does not fall under the black box warning against nephrotoxicity issued by the U.S. Food and Drug Administration in December 2008 with respect to currently marketed capsule preparations which are based on sodium phosphate.

Clinical Development

Giaconda Limited completed a Phase IIa clinical trial in which 62 patients who underwent elective colonoscopies were prospectively randomized to receive either a hypertonic solution with PicoPrep™ (sodium picosulphate) capsules, PicoPrep™ capsules alone, standard Glycoprep™ (PEG) or PicoPrep™ sachets. The clinical trial showed that the PicoPrep™ capsules were the preferred option by the patients and resulted in a lower number of mild adverse events than the other preparations. In terms of "ease of completion", more subjects in the PicoPrep™ capsule arm, as compared to the GlycoPrep™ arm, rated this bowel preparation as easy to complete.

RHB-106 is currently in the final formulation stages. We intend to seek marketing approval from the U.S. Food and Drug Administration through the 505(b)(2) regulatory path.

The following chart summarizes the clinical trial history and status of RHB-106:

Clinical trial name	Development phase of the clinical trial	Purpose of the clinical trial	Clinical site	Planned number of subjects of the trial	Number of subjects	Nature and status of the trial	Performance schedule	Total incurred cost as of December 31, 2013
-	Phase IIa	Comparison of the product's effectiveness and safety with an existing products	Center for Digestive Disease, Australia	60	60	Performed	Ended in 2005	-

Supplemental studies will be required as part of the RHB-106 global development program and regulatory strategy.

We cannot predict with certainty our development costs and they may be subject to changes. See "Item 3. Key Information – D. Risk Factors – Risk Related to Our Financial Condition and Capital Requirements."

Summary

A summary of our therapeutic candidates' key programs is provided below:

Name of Product	Relevant Indication	Potential Advantages Over Most Existing Treatments	Development Stage	Rights in the Product
RHB-101	Heartfailure and hypertention	Once-daily oral administration, reduced food affect, reduced does (less API)	Under review, additional preparations required prior to marketing application	Worldwide, exclusive license
RHB-102	Oncology support anti-emetic and potentially another indication	Reduced number of drug administrations, improved compliance and adherence	Under review and discussions with FDA regarding marketing approval application	Worldwide, exclusive license
RHB-103	Acute migraine	Avoids exacerbation of nausea, administration without water, ease of use, convenient portability and discrete carriage and use	NDA filed and accepted, Complete response letter (CRL) received and response is being prepared. Planned European marketing application subject to a bioequivalence study	Worldwide, exclusive license and co-development
RHB-104	Crohn's disease	Novel mechanism of action and improved clinical benefit (targeting suspected underlying cause of Crohn's disease	Phase III study in N. America and Israel ongoing	Acquired all rights to the product, worldwide and exclusive
RHB-104	Multiple Sclerosis (MS)	Oral formulation targeting suspected underlying cause of MS	Phase IIa study in Israel ongoing	Acquired all rights to the product, worldwide and exclusive
RHB-104	Rheumatoid Arthritis (RA); Systemic Lupus Erythematosus (SLE)	Oral formulation targeting suspected underlying cause of RA and SLE	Completed pre-clinical studies	Acquired all rights to the product, worldwide and exclusive
RHB-105	*H. Pylori* infection	Improved efficacy, potential to overcome bacterial resistance, all-in-one pill	Phase III study in the U.S. ongoing	Acquired all rights to the product, worldwide and exclusive
RHB-106	Bowel preparation	Oral pill to avoids severe bad taste; No known nephrotoxicity issues	In preparation for Phase II/III studies	Acquired all rights to the product, worldwide and exclusive

Acquisition and License Agreements

License Agreement for RHB-101

On November 18, 2009, we entered into an agreement with Egalet a/s, a private Danish pharmaceutical company, pursuant to which Egalet a/s granted us a worldwide, exclusive and perpetual license to use its rights in patents and know how relating to a therapeutic candidate containing the active ingredient "Carvedilol" and which is referred to by Egalet a/s as "Egalet Carvedilol." The name given to this product by us is RHB-101.

The license granted to us includes the right to grant sublicenses. The license covers the development, manufacture, commercialization, use, sale, offer for sale and import of the product for all uses, including medical uses, diagnostics, and other uses in human beings and/or animals.

The granted license is exclusive with regard to Egalet Carvedilol. We also received a non-exclusive license in additional patents for which Egalet a/s retained a right to use such patents in connection with other products.

In consideration for the license, we paid Egalet a/s $100,000. Furthermore, we are obligated under the license to pay Egalet a/s the following additional amounts:

- $200,000 on the date of our filing of an application for marketing of the product with the U.S. Food and Drug Administration and acceptance by the U.S. Food and Drug Administration of such filing for review;
- $500,000 on the date of receipt of the marketing approval from the U.S. Food and Drug Administration; and
- royalties at a rate of 30% of the amounts received by us from our own sales or from sublicenses payments, for a fixed period up to the expiration of the patents exclusively granted to us or 12 years from the date of the first sale of the product, whichever is earlier, in any country where a patent forming the subject of the license is registered.

Egalet a/s had the right to terminate the license if we fail to initiate clinical trials within 24 months, except if the failure to do so was due to the decision of regulatory authorities, is related to technical problems or other reasons beyond our control or influence. We believe that we satisfied this requirement.

We have the right to terminate the agreement if Egalet a/s is in material breach and does not cure the breach within ninety (90) days, and we may voluntarily terminate the agreement upon providing thirty (30) days written notice to Egalet a/s.

The license also included various intellectual property representations of Egalet a/s, including that the intellectual property licensed to us did not infringe upon third party patents or other intellectual property rights, except for one patent in Europe and one patent in the U.S. We subsequently filed an objection to the validity of the relevant European patent and on May 27, 2011, the European Patent Office annulled that patent. With respect to the patent in the U.S., we believe that RHB-101 does not infringe that patent to the extent that RHB-101 contains a "carvedilol free base" and does not contain carvedilol phosphate. RHB-101 does not contain carvedilol phosphate at present and only contains carvedilol free base.

License Agreement for RHB-102

On May 2, 2010, we entered into an agreement with SCOLR Pharma, Inc., a publicly traded Seattle based pharmaceutical company, that granted us a worldwide, exclusive and perpetual license to use patents and know how relating to an oral formulation for sustained release of ondansetron, a generic active chemical substance, for any pharmaceutical indication or treatment usage, diagnostic usage or any other use in human beings or in animals. The name given to the product by us is RHB-102.

The license granted to us includes the right to grant sublicenses. The license covers the development, manufacture, commercialization, use, sale, offer for sale and import of products for all uses, including medical uses, diagnostics, and other uses in human beings and/or animals. However, under the license agreement SCOLR Pharma, Inc. retained certain rights and is entitled to make use of the know- how for purposes other than RHB-102 and/or products outside of RHB-102's field of use, which is defined as all indications, including therapeutic, diagnostic and other human and or animal uses.

In consideration for the granting of the license, we paid SCOLR Pharma, Inc. an up-front payment of $100,000. Furthermore, we are obligated under the license to pay to SCOLR Pharma, Inc. additional amounts, as follows:

- $250,000 upon the receipt of U.S. Food and Drug Administration approval for marketing the product;
- $250,000 upon the first sale of the product; and
- royalty payments.

Royalties are payable to SCOLR Pharma, Inc. at a rate of 8% of our net sales or sublicensing fees, for the shorter of:

- expiration of the last patent granted under the license;
- 10 years from the date of the sale of the first product by us or any third party; and
- a date when the total of all payments made to SCOLR Pharma, Inc. reach an aggregate of $30 million.

The agreement requires us to make a good faith, continuous and diligent effort to allocate appropriate financial resources to prepare, initiate and complete the clinical development of RHB-102 and file an application for regulatory marketing approval in accordance with industry standards. If we do not comply with this undertaking, SCOLR Pharma, Inc. may terminate the license, except if our failure is due to development failures, negative regulatory decisions, and/or other reasons beyond our control.

We have the right to terminate the agreement if SCOLR Pharma Inc. is in material breach and does not cure the breach within ninety (90) days, and we may voluntarily terminate the agreement upon providing thirty (30) days written notice to SCOLR Pharma Inc.

Furthermore, if we have not received U.S. Food and Drug Administration approval for the marketing of the product within 36 months, or if product sales do not occur within 48 months following the transfer of the know- how to us, which was 30 days following the date of the agreement, SCOLR Pharma, Inc. may terminate the agreement, unless we elect to pay the relevant milestone payment within 45 days from the date SCOLR Pharma, Inc. notifies us of its intention to terminate the agreement.

SCOLR Pharma Inc. announced during 2013 that it had ceased business operations. Under the terms of the license agreement with SCOLR, should SCOLR file for bankruptcy, RedHill has the protection afforded to the licensee under the United States Bankruptcy Code. We are taking active steps to further safeguard our rights under the RHB-102 license agreement. "Item 3. Key Information – D. Risk Factors – Risk Related to Our Business and Regulatory Matters – If we are not able to secure patents related to RHB-102, our ability to commercialize RHB-102 or enter into commercialization agreements with potential partners with respect to this product may be adversely affected."

License Agreement for RHB-103

On August 26, 2010, we entered into a joint development and commercialization agreement with IntelGenx Corp. under which IntelGenx Corp. granted us a worldwide, exclusive and perpetual license to use its rights in patents and know-how relating to a triptan formula based on the VersaFilm™ technology and which we call RHB-103.

The license includes the right to grant sublicenses. The license covers the co-developing, selling, offering for sale and importing the product for all indications, including, but not limited to, acute treatment of migraine attacks with or without an aura and all other therapeutic, diagnostic, and other human /or animal uses.

The license provides that IntelGenx Corp. reserves the right to grant licenses to manufacture the product, subject to the approval of a steering committee. The agreement further limits our right to grant sublicenses by requiring that we give prior notice to IntelGenx Corp. of the identity of any proposed sub-licensee and provide IntelGenx Corp. with information regarding the main elements of the proposed sublicense agreement. If IntelGenx Corp. objects to a sublicense, the proposed sublicense will be presented for the approval of a steering committee.

Pursuant to the agreement, as amended, the parties agreed on joint product development activities. Accordingly, IntelGenx Corp. agreed to devote sufficient resources (subject to the approved budget in the agreement) in order to conduct clinical trials and file an application with the U.S. Food and Drug Administration for marketing of the product, and we agreed to finance the balance of the development in the amount of approximately $$1.1 million.

The joint development of the product is to be conducted through a steering committee, comprised of an equal number of members appointed by us and IntelGenx Corp. The committee is charged with supervising progress of our research and development efforts, reporting on possible delays and deciding on required revisions in the plan. IntelGenx Corp. has the deciding vote in any vote relating to issues of development, regulation and manufacture, while we have the deciding vote in any vote relating to issues of licensing, commercialization and collaborations.

In consideration for the license, we made up-front and milestone payments in the aggregate amount of $800,000 and we are required to make additional milestone payments of up to $500,000 upon receipt of U.S. Food and Drug Administration marketing approval for the product.

In addition, we are required to make royalty payments to IntelGenx Corp. of 20% of net sales if the product is marketed by us and 60% of the first $2 million of net sublicense fees, and 40% of net sublicensing fees thereafter, if the product is marketed by sublicensees. However, if we bear the regulatory costs in a sublicense arrangement, royalties will be 20% of net sublicense fees until we recover these costs, plus 10% interest, and if IntelGenx Corp. bears such costs, royalties will be 70% of net sublicense fees.

The agreement provides that all intellectual property developed or to be developed exclusively by IntelGenx Corp. will belong exclusively to IntelGenx Corp. and will be licensed to us, and the intellectual property to be developed or financed jointly by IntelGenx Corp. and us will be jointly owned by us and IntelGenx Corp., and each party may make use of such joint intellectual property for uses not competing with either the product or the other party.

The agreement is of unlimited duration and will remain in force until terminated in accordance with its terms. Either party may terminate the agreement if (i) the other party is in material breach and does not cure within ninety (90) days; or (ii) a bankruptcy or liquidation event occurs with respect to the other party. This agreement also provides that we may terminate the agreement for convenience upon providing thirty (30) days written notice to IntelGenx Corp.

Acquisition of RHB-104, RHB-105 and RHB-106

On August 11, 2010 we entered into an asset purchase agreement with Giaconda Limited, a publicly traded Australian company, pursuant to which Giaconda Limited transferred all of its patents, tangible assets, production files, regulatory approvals and other data related to the "Myoconda", "Heliconda" and "Picoconda" products to us. We renamed these products RHB-104, RHB-105 and RHB-106, respectively. Giaconda Limited further transferred to us products in process, product samples and raw materials, as well as certain rights of first refusal with respect to intellectual property in relation to digestive condition treatments. The agreement excluded from the transfer the rights to two other products of Giaconda Limited that are not related to RHB-104, RHB-105 and RHB-106. However, to the extent that the intellectual property associated with these two other products shall be required for the research, development, manufacture, registration, import/export, use, commercialization, distribution, sale and/or offer for sale of any of RHB-104, RHB-105 and RHB-106, Giaconda Limited granted us an exclusive worldwide assignable right to such intellectual property for such purposes. The closing under this agreement occurred on August 26, 2010.

In consideration for the assets purchased by us, we paid Giaconda Limited $500,000. We and Giaconda Limited also agreed that until the expiration of the last patent transferred to us, we will pay to Giaconda Limited 7% of net sales from the sale of the products by us and 20% of the royalties received from sublicensees, in each case, only after we recoup the amounts and expenses exceeding an approved budget.

Under the agreement, it was agreed that none of Giaconda Limited, Prof. Thomas Borody, the developer of the products, nor their respective affiliates may compete with us or assist others to compete with us with respect to the products and acquired technology. Such non-compete undertaking shall be in force for a period of time of up to 10 years from the date of the agreement.

The agreement provides that, should we elect not to proceed with the registration proceedings or the maintenance of any patent transferred to us, we will notify Giaconda Limited and Giaconda Limited will have the right to proceed with the registration, maintenance, development and commercialization of such patent at its expense. Should Giaconda Limited exercise such right, it will be entitled to all amounts received in connection with sales relating to such patent.

The agreement also requires us to make a good faith, continuous and commercially reasonable effort to allocate appropriate financial resources to prepare, initiate and complete the clinical development of the products (with the exception of Picoconda) and file an application for regulatory marketing approval in accordance with industry standards. Development failures, negative regulatory decisions, and/or other reasons beyond our control will not constitute a breach of this obligation. Should we breach this obligation with respect to the development of any of the products, and fail to cure the breach within 90 days from the date that Giaconda Limited sends us a default notice, Giaconda Limited may buy back all of the intellectual property rights with respect to such product for the original purchase price, plus the related development costs incurred by us through the date of the buy-back.

License Agreement for MAP diagnostic test related to RHB-104

On September 18, 2011, we entered into a license agreement with the University of Central Florida Research Foundation, Inc. pursuant to which we were granted an exclusive license for all indications and medical uses to a patent-protected diagnostic test that identifies the presence of MAP bacterial DNA in peripheral blood through DNA testing. The license covers future commercial use of the test, including its manufacture, marketing, sale and commercialization.

Under the agreement, we may grant sublicenses for the test with the consent of the University of Central Florida Research Foundation, Inc., which consent may not be unreasonably withheld.

In consideration for the license, we made one-time payment and another annual payment for the minimum royalty payment in year two of the agreement in the aggregate amount of $55,000, and we are required to make additional annual minimum royalty payments of $15,000 in year three, $20,000 in year four and $35,000 each every year thereafter. These annual minimum payment amounts will be deducted from future royalty payments.

In addition, we are required to make royalty payments equal to payments 7% of future sales, or an annual minimum amount noted above, as well as 20% of payments we receive from granting sublicenses.

The agreement will remain in force on a country by country basis until the last patent covered by the agreement expires. The University of Central Florida Research Foundation may terminate the agreement if (i) we are in material breach; (ii) if we fail to pay royalties when due and payable following provision of sixty (60) days notice; or (iii) a bankruptcy or liquidation event occurs with respect to us. We may terminate the agreement at any time by providing ninety (90) days written notice to the University of Central Florida Research Foundation.

License of Two Additional Therapeutic Candidates

On October 21, 2012, we signed a term sheet for an exclusive worldwide licensing agreement with SCOLR Pharma Inc.
for two proprietary therapeutic candidates, both extended release proprietary formulations of currently available pharmaceutical products, subject to completion of due diligence and execution of a binding agreement. We have elected not to enter into a binding agreement to acquire these two products from SCOLR Pharma. SCOLR Pharma Inc. announced during 2013 that they had ceased business operations. See "- License Agreement for RHB-102" above.

Master Service Agreement with 7810962 Canada Inc.

On April 28, 2011, we entered into a master service agreement, which was later amended, with 7810962 Canada Inc., our Canadian service provider for various project management services. According to the agreement, as amended, we agreed to pay our Canadian service provider a monthly fee of $7,500. The agreement allowed our Canadian service provider to enter into service agreements with third parties for the relevant services. The agreement may be terminated by either party upon 30 days' advance notice.

The agreement with our Canadian service provider provides that certain research and development services related to our projects will be carried out pursuant to our specific requests and upon the signing of specific agreements for each project. Such agreements shall include a description of the required services, service terms and fees. To date, we, through our Canadian service provider, have entered into manufacturing, clinical services and regulatory agreements with respect to RHB-102, RHB-104 and RHB-105.

Furthermore, pursuant to the agreement, the Canadian service provider may provide us with a discount to the research and development services with respect to incentives programs from various authorities that may be granted to the Canadian service provider in the future. As of December 31, 2013, we had received from our Canadian service provider total discounts of approximately $0.6 million, and our Canadian service provider estimates additional discount until December 2013 to be approximately $0.4 million.

Manufacturing Agreements

Manufacturing Agreement Related to RHB-102

On March 21, 2011, we entered into an agreement with a U.S. drug manufacturer, Pharmaceutics International, Inc., for the manufacture and supply of RHB-102 for our clinical trial. On May 24, 2012 and on July 13, 2012, we entered into further agreements with Pharmaceutics International, Inc. to manufacture, test and supply registration batches of RHB-102.

The agreement provides for Pharmaceutics International, Inc. to manufacture sufficient amounts of RHB-102 for our clinical trials and other planned tests pursuant to our specifications and in accordance with regulatory requirements.

Pursuant to this agreement, as amended, the manufacturer is entitled to receive up to approximately $1.2 million payable upon the completion of milestones during the production periods and reimbursement of certain expenses. Milestone payments will be triggered upon the manufacturer performing various services, such as API and raw materials sourcing, formulation and manufacturing work, development, manufacturing process, project management support and regulatory support, analytical work and stability work. Actual payment amounts may deviate significantly due to changes in the manufacturing processes, the cost of raw materials, laboratory tests and other expenses, subject to the consent of the parties. Milestones are currently expected to be achieved over the next few years.

Manufacturing Agreements Related to RHB-104

On April 28, 2011, we entered into an agreement with our Canadian service provider which entered into a back-to-back agreement with Uman Pharma, Inc., a Canadian drug manufacturer, to manufacture and supply RHB-104 for the clinical trials.

The agreement provided for Uman Pharma, Inc. to manufacture sufficient amounts of RHB-104 for our clinical trials, NDA submission batches, and other planned tests pursuant to our specifications and in accordance with regulatory requirements. All manufacturing will be done under good manufacturing practices (GMP), as proscribed by the U.S. Food and Drug Administration.

Pursuant to the agreement, as amended, the manufacturer is entitled to receive approximately $1.4 million, payable upon the completion of milestones during the production periods and reimbursement of certain expenses. Milestone payments will be triggered upon the manufacturer performing various services, such as sourcing, formulation and manufacturing work, development, manufacturing process, project management support and regulatory support, analytical work and stability work. Actual payment amounts may deviate significantly due to changes in the manufacturing processes, the cost of raw materials, laboratory tests and other expenses, subject to the consent of the parties. Milestones are currently expected to be achieved over the next few years.

On October 14, 2012, we mutually terminated this agreement with our Canadian service provider, resulting in the concurrent termination of the related back-to-back agreement between the Canadian service provider and Uman Pharma Inc. Through the end of October, we paid Uman Pharma approximately $1.1 million. No additional amounts are payable to Uman Pharma.

On October 21, 2012, we entered into a new agreement with our Canadian service provider which, in turn, entered into a back-to-back agreement with Corealis Pharma Inc. to complete the manufacturing and supply of RHB-104 for our clinical trials. Pursuant to this agreement and subsequent amendments, the manufacturer is entitled to receive total amount of approximately $464,000 in connection with completion of various milestones during the production and stability tests periods and the reimbursement of various expenses. All manufacturing will be done under GMP. Milestone payments will be triggered upon the performance by the manufacturer of various services, such as manufacturing process, project management support and regulatory support, analytical work and stability work. Actual payment amounts may deviate significantly due to changes in the manufacturing processes, the cost of raw materials, laboratory tests and other expenses, subject to the consent of the parties. Milestones are currently expected to be achieved over the next two years. The total costs of the manufacturing agreements with the Canadian service provider are expected to be approximately $1.9 million. See "– Master Service Agreement with 7810962 Canada Inc." for a description of our agreement with our Canadian service provider.

Manufacturing Agreement Related to RHB-105

On July 5, 2011, we entered into an agreement with our Canadian service provider which entered into a back-to-back agreement with Corealis Pharma Inc., a Canadian drug manufacturer, to formulate, manufacture and supply a clinical trial batch of RHB-105.

The agreement provides for Corealis Pharma Inc. to manufacture sufficient amounts of RHB-105 for our clinical trials and other planned tests pursuant to our specifications and in accordance with regulatory requirements.

Pursuant to this agreement, as amended, the manufacturer is entitled to receive approximately $500,000 payable upon the completion of milestones during the production periods and for reimbursement of certain expenses. Milestone payments will be triggered upon the performance by the manufacturer of various services, such as raw materials formulation and manufacturing work, development, manufacturing process, project management support and regulatory support, analytical work and stability work. Actual payment amounts may deviate significantly due to changes in the manufacturing processes, the cost of raw materials, laboratory tests and other expenses, subject to the consent of the parties. Milestones are currently expected to be achieved over the next few years.

The agreement will remain in force until terminated. This agreement provides that either party may terminate the agreement (i) if the other party is in material breach and does not cure within thirty (30) days or (ii) upon a bankruptcy or liquidation event with respect to the other party.

See "– Master Service Agreement with 7810962 Canada Inc." for a description of our agreement with our Canadian service provider.

Manufacturing Agreement Related to RHB-106

On June 27, 2011, we entered into an agreement, which was subsequently amended, with Pharmaceutics International Inc., a U.S. drug manufacturer, for the manufacture of RHB-106.

The agreement provides for Pharmaceutics International Inc. to manufacture sufficient amounts of RHB-106 for our clinical trials and other planned tests pursuant to our specifications and in accordance with regulatory requirements.

Pursuant to this agreement, as amended, the manufacturer is entitled to receive approximately $462,000, payable in upon the completion of milestones during the production periods and reimbursement of certain expenses over a period of approximately 3 years. Milestone payments will be triggered upon the performance by the manufacturer of various services, such as raw materials sourcing, formulation and manufacturing work, development, manufacturing process, project management support and regulatory support, analytical work and stability work. Actual payment amounts may deviate significantly due to changes in the manufacturing processes, the cost of raw materials, laboratory tests and other expenses, subject to the consent of the parties. Milestones are currently expected to be achieved over the next few years.

Either party may terminate the agreement if the other party is in material breach and does not cure within sixty (60) days (ten (10) days in connection with monetary obligations). We may terminate the agreement at any time and for any reason upon providing thirty (30) days written notice to Pharmaceutics International Inc. Pharmaceutics International Inc. may terminate the agreement if we fail to authorize purchase of material needed in connection with the services.

Clinical Services Agreement related to RHB-104

On June 15, 2011, we entered into an agreement with our Canadian service provider which entered into a back-to-back agreement with inVentive Health (f/k/a PharmaNet Canada Inc.), a subsidiary of an international CRO company, and other related entities, for the purpose of performing the clinical trials for RHB-104. inVentive Health specializes in the performance of clinical trials and pursuant to the agreement is responsible for the performance of the clinical trials, including entering into agreements with medical centers to perform the trials, supervision of the performance and progress of the trials and the analysis of the results, all pursuant and subject to applicable regulatory requirements.

Pursuant to this agreement and subsequent amendments, inVentive Health is entitled to receive $10.5 million in connection with the Phase III clinical trial in North America and Israel. The fee includes payment of $5 million in connection with professional services to be provided by inventive Health, as well as reimbursement of investigator grant costs and pass-through costs to be paid during the trials. The payments will be spread over the period of the clinical trials and based upon quarterly administration fees, milestones payments of up to $4.8 million based on patient recruitment, completion of subject dosing and report preparation, investigators grants paid to research centers that participate in the trail, as well reimbursements of certain expenses. These fees, however, may vary widely from time to time in accordance with the final clinical trials protocol and payments to be made to third parties, such as investigator grants costs.

The agreement includes a timetable for the recruitment of patients, performance of the trials and analysis of results, including a timetable for the performance of ongoing patient follow-up. Such timetables may vary as a result of possible delays in recruitment of patients for the clinical trials.

The agreement will remain in force until all relevant services have been provided and we have made all payments thereunder, or until terminated. Either party may terminate the agreement (i) if the other party is in material breach and does not cure within thirty (30) days; or (ii) upon a bankruptcy or liquidation event with respect to the other party. This agreement also provides that we may terminate the agreement at any time without cause upon providing forty five (45) days written notice to our Canadian service provider.

In March, 2012, we entered into an agreement with our Canadian service provider which entered into a back-to-back agreement with inventive Health for the provision of clinical trial services, for pediatric trial of RHB-104.

See "– 4.10 Amendment to Clinical Services Agreement, dated June 15, 2011, by and between RedHill and 7810962 Canada Inc." for a description of our agreement with our Canadian service provider.

Intellectual Property

Our success depends in part on our ability to obtain and maintain proprietary protection for our technology, its therapeutic applications, and related technology and know-how, to operate without infringing the proprietary rights of others and to prevent others from infringing our proprietary rights. Our policy is to seek to protect our proprietary position by, among other methods, filing U.S. and foreign patent applications related to our proprietary technology, inventions and improvements that are important to the development of our business. We also rely on our trade secrets, know-how and continuing technological innovation to develop and maintain our proprietary position. We vigorously defend our intellectual property to preserve our rights and gain the benefit of our technological investments.

We have rights either through assignment, asset purchase or in-licensing to a total of 136 issued patents and 22 patent applications. The patents and patent applications are registered in various jurisdictions, the details of each family of patents being provided below. In addition, we have licensed rights to various platform technologies on a non-exclusive basis.

RHB-101

One family of our patents and patent applications is in-licensed by us and is comprised of ten issued patents. This family is entitled "Controlled Release Solid Dispersion of carvedilol" and relates to RHB-101. The patent family has a priority date of September 21, 2001 and assuming no extension or adjustment of term, the patents in this family will expire September 23, 2022. This patent family is licensed from Egalet a/s as part of our licensing agreement and relates to controlled release pharmaceutical composition for oral use comprising a solid dispersion of:

- at least one therapeutically, prophylactically and/or diagnostically active substance (including carvedilol), which is at least partially in an amorphous form,
- a pharmaceutically acceptable polymer that has plasticizing properties, and
- optionally, a stabilizing agent, the active substance having a limited water solubility, and the composition being designed to release the active substance with a substantially zero order release.

This family of patents includes patents granted in Austria, Belgium, Switzerland, Germany, Denmark, Spain, France, the United Kingdom, Ireland and Italy.

A second family of our patents and patent applications is in-licensed by us from Egalet a/s and is comprised of one patent in the U.S. related to a controlled release pharmaceutical composition for oral use comprising carvedilol. This family is entitled "Controlled Release Carvedilol Compositions" and also relates to RHB-101. The patent family has a priority date of November 8, 2002, and the U.S. application once granted will expire June 6, 2024, including a patent term adjustment of 219 days.

RHB-102

A third family is in-licensed by us and is comprised of four issued patents in the U.S., Canada, Mexico and Europe. April 15, 2014 is the deadline for determining which specific countries to validate the European patent. An application is pending in Hong Kong. This family is entitled "Monolithic tablet for controlled drug release" and has priority date of March 9, 1998. The non-U.S. patents in this family will expire March 2, 2019 and the U.S. patent will expire on March 9, 2018. This family is in-licensed from SCOLR Pharma, Inc. as part of our licensing agreement and relates to a swellable hydrophilic matrix tablet that delivers drugs in a controlled manner over a long period of time. The drug is disposed in a matrix composed of HPMC or polyethylene oxide, in the presence of a salt, which may be a combination of salts.

A fourth patent family is in-licensed by us and is comprised of 22 issued patents and two pending patent applications. This family is entitled "Amino Acid Modulated extended Release Dosage Form" and has an earliest priority date of December 20, 1999 for the U.S. patents, and the earliest US patent will expire December 20, 2019. The non-U.S. patents will expire February 20, 2022. The patent has been granted in the U.S., Canada, Australia and Europe and two patent applications are still pending in Japan.

This family is licensed from SCOLR Pharma, Inc. and covers an extended release tablet comprising a plurality of granules of an effective amount of a pharmaceutically active compound, at least one amino acid, and an intragranular polymer in which the granule is dispersed within a hydrophilic extragranular polymer matrix which is more rapidly hydrating than the intragranular polymer.

A fifth family, currently including one US provisional patent application filed on March 14, 2013, is owned by us and relates to extended release ondansetron formulations.

RHB-103

A sixth patent family is in-licensed by us from IntelGenx Corp. and is comprised of three issued patents in the US. one pending U.S. non-provisional patent application, and one pending U.S. provisional patent application filed July 31, 2013. As part of the agreement with IntelGenx Corp., we were granted a worldwide, exclusive and perpetual license which includes the right to grant sub-licenses to these patents and applications. These patents and applications cover various aspects of the VersaFilm^{TM} technology. The central U.S. patent (7,132,113) for a multi-layer film formulation comprising the combination of a hydroxypropyl cellulose and a modified starch was issued November 7, 2006 and expires in 2022.

RHB-104

A seventh family of our patents and patent applications is owned by us and is comprised of thirty six issued patents (including U.S., Australia, Canada, Israel, New Zealand, Norway, Philippines, South Africa, Austria, Belgium, Switzerland, Lichtenstein, Cyprus, Germany, Denmark, Spain, Finland, France, the United Kingdom, Greece, Ireland, Italy, Luxembourg, Monaco, the Netherlands, Portugal and Sweden). This family is entitled "Method and composition for treating inflammatory bowel disease" and relates to RHB-104. The patent family has priority rights dating to April 1, 1997 and the patents in this family will expire April 1, 2018. This patent family was acquired from Giaconda Limited as part of our asset purchase agreement with them.

This family relates to a method and composition of medications used to treat inflammatory bowel disease, which includes Crohn's disease. It further provides combinations of anti-atypical mycobacterial agents effective against the atypical mycobacterial strains. It also provides a method of potentially immunizing patients with extracts of non-pathogenic mycobacteria.

A eighth family of patents and patent applications is owned by us and is comprised of six patent applications in the US, Canada, Europe, Israel, Japan-and the Philippines, and granted patents in the US, Australia. South Africa and New Zealand... In Europe we have the option, once the European application is granted, to validate the European patent in a total of 35 countries. This patent family was acquired from Giaconda Limited as part of our asset purchase agreement with them and is related to RHB-104.

The family is entitled "Method and composition for treating inflammatory bowel disease" and covers improved compositions comprising rifabutin, clarithromycin, and clofazimine for use in the treatment of Inflammatory Bowel Diseases. In one instance, the compositions may comprise a formulation of rifabutin, clarithromycin, and clofazimine in a single dosage form, such as a capsule, tablet, etc., with one or more specific excipients.

The family also covers a method for formulating the compositions to provide a solid oral dosage form of the composition which has improved efficacy and a reduced likelihood of side effects.

RHB-105

A ninth family of our patents and patent applications is owned by us and comprised of twenty issued patents (including the U.S., Australia, Canada, Austria, Belgium, Switzerland/Liechtenstein, Cyprus, Germany, Denmark, Spain, France, the United Kingdom, Greece, Ireland, Italy, Luxembourg, Monaco, the Netherlands, Portugal and Sweden). This family is entitled "Improved Method of Eradication of *H.pylori*" and relates to RHB-105. The patent family has priority rights dating to April 30, 1998 and the patents in this family will expire April 30, 2019. This patent family was acquired as part of the asset purchase agreement with Giaconda Limited.

The family relates to methods for the treatment and/or prevention of recurrence of a gastrointestinal disorder associated with *H. Pylori*, which entails administering to the patient a therapeutically effective amount of a first antibiotic, which is an ansamycin and a therapeutically effective amount of at least a second antibiotic or antimicrobial agent. The invention also provides pharmaceutical compositions for use in the methods of the invention.

A tenth family relates to pharmaceutical compositions and methods for the treatment of disorders associated with infection by *H. pylori* or the prevention of recurrence of disorders associated with infection by *H. pylori*. This family includes one pending U.S. patent application and one pending PCT International patent application.

RHB-106

An eleventh family of our patents and patent applications is owned by us and is comprised of seven issued patents in the U.S., Australia, Canada and New Zealand and one application in Europe (designating Austria, Belgium, Switzerland/Liechtenstein, Germany, Denmark, Spain, Finland, France, United Kingdom, Greece, Ireland, Italy, Luxembourg, Monaco, Netherlands, Portugal and Sweden). This family is entitled "Improved Preparation for colonic evacuation" and relates to RHB-106. The patent family has priority rights dating to November 3, 1995 and the non-U.S. patents in this family will expire November 1, 2016 and the U.S. patents October 31, 2016.

This patent family was acquired from Giaconda Limited as part of our asset purchase transaction and relates to an osmotic colonic evacuant in solid oral dosage form comprising an orthostatic lavage in powder form and a pharmaceutically acceptable excipient, diluent and/or adjuvant. It also relates to a method of evacuating a patient's colon, a method of treating small bowel bacterial overgrowth or irritable bowel syndrome and a method of treating acute or chronic bacterial bowel infection. It further relates to a sequential pack for the oral administration of at least two treatment regimens including a first treatment regimen comprising an osmotic colonic evacuant in solid oral dosage form, in unit dosage form adapted and presented for a first administration period, together with a second treatment regimen comprising an osmotic colonic evacuant in solid oral dosage form, in unit dosage form adapted and presented for a second administration period.

A twelfth family is owned by us and at present includes one U.S. provisional application. The title of this application is "A formulation and method of manufacturing a formulation for use in colonic evacuation" and relates to a new formulation of RHB 106. The U.S. provisional application was filed July 27, 2012 and a Patent Cooperation Treaty Application (PCT/IB2013/001640) was filed 26 July 2013.

RHB-104 - new indications

A thirteenth family is owned by us and is comprised of two U.S. provisional patent applications. The title of these applications is "A composition and method for treating an autoimmune disease" and relates to new indications for RHB-104. The first U.S. provisional application was filed September 20, 2011 and the second U.S. provisional application was filed September 21, 2011. On September 19, 2012, we completed a PCT filing and additional filings occurred in Pakistan and Taiwan. The national stage deadline for filing additional foreign patent applications is March 20, 2014.

We filed two U.S. provisional patent applications on March 14, 2013 relating to new indications for RHB-104 and methods of manufacturing RHB-104.

Protocol for detection of the Intracellular Infection Mycobacterium avium paratuberculosis in blood

A fourteenth family of patents is a single patent licensed from the University of Central Florida Research Foundation Inc. (UCF) and is entitled Protocol for detection of the Intracellular Infection Myobacterium avium paratuberculosis in blood. It was granted in the U.S. (7,488,580 B1) and has a priority date of March 8, 2006, expiring in 2026. This patent relates to a method and kit for detection of intracellular MAP infection in blood and blood derivative samples from humans by culture and PCR. The technology can screen for MAP in blood samples from patients having inflammatory and non-inflammatory bowel disease, and the results used to identify those patients for appropriate treatment with antibiotics. The method and kit allows monitoring and evaluation of the outcome of antibiotic therapy.

The patent positions of companies like ours are generally uncertain and involve complex legal and factual questions. Our ability to maintain and solidify our proprietary position for our technology will depend on our success in obtaining effective claims and enforcing those claims once granted.

Government Regulations and Funding

Pharmaceutical companies are subject to extensive regulation by national, state and local agencies such as the U.S. Food and Drug Administration in the U.S., the Ministry of Health in Israel, or the European Medicines Agency (EMA). The manufacture, distribution, marketing and sale of pharmaceutical products are subject to government regulation in the U.S. and various foreign countries. Additionally, in the U.S., we must follow rules and regulations established by the U.S. Food and Drug Administration requiring the presentation of data indicating that our products are safe and efficacious and are manufactured in accordance with current good manufacturing practices (cGMP) regulations. If we do not comply with applicable requirements, we may be fined, the government may refuse to approve our marketing applications or allow us to manufacture or market our products, and we may be criminally prosecuted. We and our manufacturers and clinical research organizations may also be subject to regulations under other federal, state and local laws, including, but not limited to, the U.S. Occupational Safety and Health Act, the Resource Conservation and Recovery Act, the Clean Air Act and import, export and customs regulations as well as the laws and regulations of other countries. The U.S. government has increased its enforcement activity regarding illegal marketing practices domestically and internationally. As a result, pharmaceutical companies must ensure their compliance with the Foreign Corrupt Practices Act and federal healthcare fraud and abuse laws, including the False Claims Act.

These regulatory requirements impact our operations and differ from one country to another, so that securing the applicable regulatory approvals of one country does not imply the approval of another country. However, securing the approval of a more stringent body, *i.e.* the U.S. Food and Drug Administration, may facilitate receiving the approval by a regulatory authority in a different country where the regulatory requirements are similar or less stringent. The approval procedures involve high costs and are manpower intensive, usually extend over many years and require highly skilled and professional resources.

U.S. Food and Drug Administration Approval Process

The steps required to be taken before a new drug may be marketed in the U.S. generally include:

- Completion of pre-clinical laboratory and animal testing;
- The submission to the U.S. Food and Drug Administration of an investigational new drug, or IND, application which must be evaluated and found acceptable by the U.S. Food and Drug Administration before human clinical trials may commence;
- Performance of adequate and well-controlled human clinical trials to establish the safety and efficacy of the proposed drug for its intended use; and
- Submission and approval of an NDA.

Clinical studies are conducted under protocols detailing, among other things, the objectives of the study, what types of patients may enter the study, schedules of tests and procedures, drugs, dosages, and length of study, as well as the parameters to be used in monitoring safety, and the efficacy criteria to be evaluated. A protocol for each clinical study and any subsequent protocol amendments must be submitted to the U.S. Food and Drug Administration as part of the IND.

In all the countries that are signatories of the Helsinki Declaration (including Israel), the prerequisite for conducting clinical trials (on human subjects) is securing the preliminary approval of the competent authorities of that country to conduct medical experiments on human subjects in compliance with the other principles established by the Helsinki Declaration.

The clinical testing of a drug product candidate generally is conducted in three sequential phases prior to approval, but the phases may overlap or be combined. A fourth, or post approval, phase may include additional clinical studies. The phases are generally as follows:

Phase I. In Phase 1 clinical studies, the product is tested in a small number of patients with the target condition or disease or in healthy volunteers. These studies are designed to evaluate the safety, dosage tolerance, metabolism and pharmacologic actions of the product candidate in humans, side effects associated with increasing doses, and, in some cases, to gain early evidence on efficacy. The number of participants included in Phase 1 studies is generally in the range of 20 to 80.

Phase II. In Phase II studies, in addition to safety, the sponsor evaluates the efficacy of the product candidate on targeted indications to determine dosage tolerance and optimal dosage and to identify possible adverse effects and safety risks. Phase II studies typically are larger than Phase I but smaller than Phase III studies and may involve several hundred participants

Phase III. Phase III studies typically involve an expanded patient population at geographically-dispersed test sites. They are performed after preliminary evidence suggesting effectiveness of the product candidate has been obtained and are designed to further evaluate clinical efficacy and safety, to establish the overall benefit-risk relationship of the product candidate and to provide an adequate basis for a potential product approval. Phase III studies usually involve several hundred to several thousand participants.

Phase IV. Phase IV clinical trials are post marketing studies designed to collect additional safety data as well as potentially expand a product indication. Post marketing commitments are required of, or agreed to by, a sponsor after the U.S. Food and Drug Administration has approved a product for marketing. These studies are used to gain additional information from the treatment of patients in the intended therapeutic indication and to verify a clinical benefit in the case of drugs approved under accelerated approval regulations. If the U.S. Food and Drug Administration approves a product while a company has ongoing clinical trials that were not necessary for approval, a company may be able to use the data from these clinical trials to meet all or part of any Phase IV clinical trial requirement. These clinical trials are often referred to as Phase IV post-approval or post marketing commitments. Failure to promptly conduct Phase IV clinical trials could result in the inability to deliver the product into interstate commerce, misbranding charges, and civil monetary penalties.

Clinical trials must be conducted in accordance with the U.S. Food and Drug Administration's good clinical practices, or GCP, requirements. The U.S. Food and Drug Administration may order the temporary or permanent discontinuation of a clinical study at any time or impose other sanctions if it believes that the clinical study is not being conducted in accordance with U.S. Food and Drug Administration requirements or that the participants are being exposed to an unacceptable health risk. An institutional review board, or IRB, generally must approve the clinical trial design and patient informed consent at study sites that the IRB oversees and also may halt a study, either temporarily or permanently, for failure to comply with the IRB's requirements, or may impose other conditions. Additionally, some clinical studies are overseen by an independent group of qualified experts organized by the clinical study sponsor, known as a data safety monitoring board or committee. This group recommends whether or not a trial may move forward at designated check points based on access to certain data from the study. The clinical study sponsor may also suspend or terminate a clinical trial based on evolving business objectives and/or competitive climate.

As a product candidate moves through the clinical testing phases, manufacturing processes are further defined, refined, controlled and validated. The level of control and validation required by the U.S. Food and Drug Administration increases as clinical studies progress. We and the third-party manufacturers on which we rely for the manufacture of our product candidates and their respective components (including the active pharmaceutical ingredient, or API) are subject to requirements that drugs be manufactured, packaged and labeled in conformity with cGMP. To comply with cGMP requirements, manufacturers must continue to spend time, money and effort to meet requirements relating to personnel, facilities, equipment, production and process, labeling and packaging, quality control, recordkeeping and other requirements.

Assuming completion of all required testing in accordance with all applicable regulatory requirements, detailed information on the product candidate is submitted to the U.S. Food and Drug Administration in the form of an NDA, requesting approval to market the product for one or more indications, together with payment of a user fee, unless waived. An NDA includes all relevant data available from pertinent nonclinical and clinical studies, including negative or ambiguous results as well as positive findings, together with detailed information on the chemistry, manufacture, controls and proposed labeling, among other things. To support marketing approval, the data submitted must be sufficient in quality and quantity to establish the safety and efficacy of the product candidate for its intended use to the satisfaction of the U.S. Food and Drug Administration.

If an NDA submission is accepted for filing, the U.S. Food and Drug Administration begins an in-depth review of the NDA. Under the Prescription Drug User Fee Act, or PDUFA, the U.S. Food and Drug Administration's goal is to complete its initial review and respond to the applicant within twelve months of submission, unless the application relates to an unmet medical need in a serious or life-threatening indication, in which case the goal may be within eight months of NDA submission. However, PDUFA goal dates are not legal mandates and U.S. Food and Drug Administration response often occurs several months beyond the original PDUFA goal date. Further, the review process and the target response date under PDUFA may be extended if the U.S. Food and Drug Administration requests or the NDA sponsor otherwise provides additional information or clarification regarding information already provided in the NDA. The NDA review process can, accordingly, be very lengthy. During its review of an NDA, the U.S. Food and Drug Administration may refer the application to an advisory committee for review, evaluation and recommendation as to whether the application should be approved. The U.S. Food and Drug Administration is not bound by the recommendation of an advisory committee, but it typically follows such recommendations. Data from clinical studies are not always conclusive and the U.S. Food and Drug Administration and/or any advisory committee it appoints may interpret data differently than the applicant.

After the U.S. Food and Drug Administration evaluates the NDA and inspects manufacturing facilities where the drug product and/or its API will be produced, it will either approve commercial marketing of the drug product with prescribing information for specific indications or issue a complete response letter indicating that the application is not ready for approval and stating the conditions that must be met in order to secure approval of the NDA. If the complete response letter requires additional data and the applicant subsequently submits that data, the U.S. Food and Drug Administration nevertheless may ultimately decide that the NDA does not satisfy its criteria for approval. The U.S. Food and Drug Administration could also approve the NDA with a Risk Evaluation and Mitigation Strategies, or REMS, plan to mitigate risks, which could include medication guides, physician communication plans, or elements to assure safe use, such as restricted distribution methods, patient registries and other risk minimization tools. The U.S. Food and Drug Administration also may condition approval on, among other things, changes to proposed labeling, development of adequate controls and specifications, or a commitment to conduct post-marketing testing. Such post-marketing testing may include phase 4 clinical studies and surveillance to further assess and monitor the product's safety and efficacy after approval. Regulatory approval of products for serious or life-threatening indications may require that participants in clinical studies be followed for long periods to determine the overall survival benefit of the drug.

If the U.S. Food and Drug Administration approves one of our product candidates, we will be required to comply with a number of post-approval regulatory requirements. We would be required to report, among other things, certain adverse reactions and production problems to the U.S. Food and Drug Administration, provide updated safety and efficacy information and comply with requirements concerning advertising and promotional labeling for any of our products. Also, quality control and manufacturing procedures must continue to conform to cGMP after approval, and the U.S. Food and Drug Administration periodically inspects manufacturing facilities to assess compliance with cGMP, which imposes extensive procedural, substantive and record keeping requirements. If we seek to make certain changes to an approved product, such as certain manufacturing changes, we will need U.S. Food and Drug Administration review and approval before the change can be implemented. For example, if we change the manufacturer of a product or its API, the U.S. Food and Drug Administration may require stability or other data from the new manufacturer, which will take time and is costly to generate, and the delay associated with generating this data may cause interruptions in our ability to meet commercial demand, if any. While physicians may use products for indications that have not been approved by the U.S. Food and Drug Administration, we may not label or promote the product for an indication that has not been approved. Securing U.S. Food and Drug Administration approval for new indications is similar to the process for approval of the original indication and requires, among other things, submitting data from adequate and well-controlled studies that demonstrate the product's safety and efficacy in the new indication. Even if such studies are conducted, the U.S. Food and Drug Administration may not approve any change in a timely fashion, or at all.

We rely, and expect to continue to rely, on third parties for the manufacture of clinical and future commercial, quantities of our product candidates. Future U.S. Food and Drug Administration and state inspections may identify compliance issues at these third-party facilities that may disrupt production or distribution or require substantial resources to correct. In addition, discovery of previously unknown problems with a product or the failure to comply with applicable requirements may result in restrictions on a product, manufacturer or holder of an approved NDA, including withdrawal or recall of the product from the market or other voluntary, U.S. Food and Drug Administration-initiated or judicial action that could delay or prohibit further marketing. Newly discovered or developed safety or efficacy data may require changes to a product's approved labeling, including the addition of new warnings and contraindications, and also may require the implementation of other risk management measures. Many of the foregoing could limit the commercial value of an approved product or require us to commit substantial additional resources in connection with the approval of a product. Also, new government requirements, including those resulting from new legislation, may be established, or the U.S. Food and Drug Administration's policies may change, which could delay or prevent regulatory approval of our products under development.

Section 505(b)(2) New Drug Applications

As an alternate path for U.S. Food and Drug Administration approval of new indications or new formulations of previously-approved products, a company may file a Section 505(b)(2) NDA, instead of a "stand-alone" or "full" NDA. Section 505(b)(2) of the Food, Drug, and Cosmetic Act, or FDC, was enacted as part of the Drug Price Competition and Patent Term Restoration Act of 1984, otherwise known as the Hatch-Waxman Amendments. Section 505(b)(2) permits the submission of an NDA where at least some of the information required for approval comes from studies not conducted by or for the applicant and for which the applicant has not obtained a right of reference. Some examples of products that may be allowed to follow a 505(b)(2) path to approval are drugs that have a new dosage form, strength, route of administration, formulation or indication.

The Hatch-Waxman Amendments permit the applicant to rely upon certain published nonclinical or clinical studies conducted for an approved product or the U.S. Food and Drug Administration's conclusions from prior review of such studies. The U.S. Food and Drug Administration may require companies to perform additional studies or measurements to support any changes from the approved product. The U.S. Food and Drug Administration may then approve the new product for all or some of the labeled indications for which the reference product has been approved, as well as for any new indication supported by the NDA. While references to nonclinical and clinical data not generated by the applicant or for which the applicant does not have a right of reference are allowed, all development, process, stability, qualification and validation data related to the manufacturing and quality of the new product must be included in an NDA submitted under Section 505(b)(2).

To the extent that the Section 505(b)(2) applicant is relying on the U.S. Food and Drug Administration's conclusions regarding studies conducted for an already approved product, the applicant is required to certify to the U.S. Food and Drug Administration concerning any patents listed for the approved product in the U.S. Food and Drug Administration's Orange Book publication. Specifically, the applicant must certify that: (i) the required patent information has not been filed; (ii) the listed patent has expired; (iii) the listed patent has not expired, but will expire on a particular date and approval is sought after patent expiration; or (iv) the listed patent is invalid or will not be infringed by the new product. The Section 505(b)(2) application also will not be approved until any non-patent exclusivity, such as exclusivity for obtaining approval of a new chemical entity, listed in the Orange Book for the reference product has expired. Thus, the Section 505(b)(2) applicant may invest a significant amount of time and expense in the development of its products only to be subject to significant delay and patent litigation before its products may be commercialized.

Orphan Drug Designation

The Orphan Drug Act of 1983, or Orphan Drug Act, encourages manufacturers to seek approval of products intended to treat "rare diseases and conditions" with a prevalence of fewer than 200,000 patients in the U.S. or for which there is no reasonable expectation of recovering the development costs for the product. For products that receive Orphan Drug designation by the U.S. Food and Drug Administration, the Orphan Drug Act provides tax credits for clinical research, U.S. Food and Drug Administration assistance with protocol design, eligibility for U.S. Food and Drug Administration grants to fund clinical studies, waiver of the U.S. Food and Drug Administration application fee, and a period of seven years of marketing exclusivity for the product following U.S. Food and Drug Administration marketing approval.

C. Organizational Structure

Not applicable.

D. Property, Plant and Equipment

On December 24 2013, we entered into amendment to the lease agreement for the lease of offices in the "Platinum" building at 21 Ha'arba'a Street, Tel Aviv, Israel. Pursuant to the lease agreement, as amended, we lease approximately 394 square meters of office space, a 27 square meter warehouse and six parking spaces. The monthly rent is NIS 61,000 (approximately $17,000 based on the representative U.S. dollar – NIS rate of exchange of 3.51 on February 23, 2014), linked to the Israeli Consumer Price Index of January 2011. The lease term under the amendment is will expire on January 31, 2017, with an option to extend the lease term by three additional years. As security for its obligations under the Lease Agreement, we provided a bank guarantee in the amount of NIS 280,000 ($80,000 based on the representative U.S. dollar – NIS rate of exchange of 3.51 on February 23, 2014). Since April 2011, these offices have served as our corporate headquarters.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion of our financial condition and results of operations in conjunction with the financial statements and the notes thereto included elsewhere in this Annual Report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Annual Report, particularly those in "Item 3. Key Information – Risk Factors."

Company Overview

We are an emerging Israeli biopharmaceutical company focused primarily on the development and acquisition of therapeutic candidates. In particular, we acquire or in-license and develop patent-protected new formulations and combinations of existing drugs in advanced stages of development.

Our primary therapeutic focus is on inflammatory and gastrointestinal (GI) diseases, including cancers and related conditions.

Depending on the specific development program, our therapeutic candidates are designed to provide improvements over existing drugs by improving their safety profile, reducing side effects, lowering the number of daily administrations, using a more convenient administration form, providing a cost advantage and/or exhibiting greater efficacy. Where applicable, we intend to seek U.S. Food and Drug Administration approval for the commercialization of certain of our therapeutic candidates through the alternative Section 505(b)(2) regulatory path under the Federal Food, Drug, and Cosmetic Act of 1938, as amended, and in corresponding regulatory paths in other foreign jurisdictions. Our current pipeline consists of six late clinical development therapeutic candidates.

We have funded our operations primarily through public (in Israel) and private offerings of our securities. Because our therapeutic candidates are currently in development, we cannot estimate when and if we will generate significant revenues in the future.

The following is a description of our six therapeutic candidates:

RHB-101 is a patented formulation once-daily controlled release formulation of carvedilol intended for the treatment of hypertension, heart failure and left ventricular dysfunction (following myocardial infarction). We acquired the rights to RHB-101 pursuant to a November 18, 2009 agreement with Egalet a/s. Pursuant to this agreement, we received a worldwide, exclusive and perpetual license to certain patent rights related to RHB-101. We paid Egalet a/s $100,000 and are required to make milestone payments of up to $700,000 and pay future royalties, for a fixed period of time as determined under the agreement, at a rate of 30% of the amounts received by us from sales of the product by us or from sublicenses payments. See "Item 4. Information on the Company – B. Business Overview – Acquisition and License Agreements - License Agreement for RHB-101."

RHB-102 is a patented formulation once-daily controlled release oral formulation of ondansetron, in combination with salts, intended for the prevention of chemotherapy and radiotherapy induced nausea and vomiting, by means of an oral formulation of ondansetron. RHB-102 is anticipated to prevent chemotherapy and radiotherapy induced nausea and vomiting over a time frame of approximately 24 hours. On May 2, 2010, we received a worldwide, exclusive and perpetual license to use patents and know how relating to RHB-102 from SCOLR Pharma, Inc. in exchange for an up-front payment of $100,000, milestone payments of up to $500,000 and future royalties, for a fixed period of time as determined under the agreement, of 8% of our net sales or sublicense fees. See "Item 4. Information on the Company – B. Business Overview – Acquisition and License Agreements - License Agreement for RHB-102." SCOLR Pharma announced during 2013 that it had ceased business operations. See "Item 3. Key Information – D. Risk Factors – Risk Related to Our Business and Regulatory Matters – If we are not able to secure patents related to RHB-102, our ability to commercialize RHB-102 or enter into commercialization agreements with potential partners with respect to this product may be adversely affected."

RHB-103 is a patented oral thin film formulation of rizatriptan intended for the treatment of acute migraine headaches. On August 26, 2010, we entered into a joint development and commercialization agreement with IntelGenx Corp. pursuant to which IntelGenx Corp. granted us a worldwide, exclusive and perpetual license to use RHB-103 and to grant sublicenses. In consideration for the license, we made up-front and milestone payments in the aggregate amount of $800,000 and are required to make additional milestone payments of up to $500.000. In addition, we are required to make royalty payments to IntelGenx Corp. of 20% of net sales if the product is marketed by us and 40% of net sublicense fees if the product is marketed by sublicensees. However, in certain events the royalty payments could range between 20% to 70% of net sublicense fees. See "Item 4. Information on the Company – B. Business Overview – Acquisition and License Agreements – License Agreement for RHB-103."

RHB-104 is a patented combination of three antibiotics (*i.e.*, clarithromycin, clofazamine and rifabutin) in a single capsule that is intended for the treatment Crohn's disease and potential other auto diseases. Unlike other drugs on the market for the treatment of Crohn's disease that are immunosuppressive agents, RHB-104 is intended to directly address the suspected cause of the disease. On August 11, 2010, we entered into an asset purchase agreement with Giaconda Limited, pursuant to which we acquired ownership rights in patents, tangible assets, production files and regulatory approvals and other data and certain third party agreements related to RHB-104, RHB-105 and RHB-106 in exchange for $500,000 and royalty payments of 7% of net sales and 20% of sublicense fees, in each case, only after we recoup the amounts and expenses exceeding the approved budget. See "Item 4. Information on the Company – B. Business Overview – Acquisition and License Agreements – Acquisition of RHB-104, RHB-105 and RHB-106."

RHB-105 is a patented combination of three drugs – omeprazole, which is a proton pump inhibitor, amoxicillin and rifabutin, both of which are antibiotics. RHB-105 is intended for the treatment of *H. Pylori* bacterial infection in the gastrointestinal tract. We acquired ownership rights in patents, tangible assets, production files and regulatory approvals and other data and certain third party agreements related to RHB-105 pursuant to the Asset Purchase Agreement with Giaconda Limited described above. See "Item 4. Information on the Company – B. Business Overview – Acquisition and License Agreements – Acquisition of RHB-104, RHB-105 and RHB-106."

RHB-106 is a patented formulation in tablet form intended for the preparation and cleansing of the gastrointestinal tract prior to the performance of abdominal procedures. We acquired ownership rights in patents, tangible assets, production files and regulatory approvals and other data and certain third party agreements related to RHB-106 pursuant to the Asset Purchase Agreement with Giaconda Limited described above. See "Item 4. Information on the Company – B. Business Overview – Acquisition and License Agreements – Acquisition of RHB-104, RHB-105 and RHB-106."

JOBS Act

We are an emerging growth company. Section 107 of the JOBS Act provides that an "emerging growth company" can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. This means that an "emerging growth company" can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to utilize this exemption, and therefore we will not be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies. As an "emerging growth company", we also elected to rely on other exemptions, including without limitation, not (i) providing an auditor's attestation report on our system of internal controls over financial reporting pursuant to Section 404 and (ii) complying with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements (auditor discussion and analysis). These exemptions will apply until the earliest of (a) the last day of our fiscal year during which we have total annual gross revenues of at least $1.0 billion; (b) the last day of our fiscal year following the fifth anniversary of the date of the first sale of our ordinary shares pursuant to an effective registration statement closing of this offering (in our case, December 31, 2018); (c) the date on which we have, during the previous three-year period, issued more than $1.0 billion in non-convertible debt; or (d) the date on which we are deemed to be a "large accelerated filer" under the Exchange Act of 1934, which would occur if the market value of our ordinary shares held by non-affiliates is $700 million or more as of the last business day of our most recently completed fiscal quarter.

Components of Statement of Comprehensive Loss

Revenues

In 2013, 2012 and 2011, we recorded non-significant revenues in connection with royalty payments received from a third party licensee of limited rights to a patent that we acquired from Giaconda Limited. Our therapeutic candidates are currently in development, and therefore, we cannot estimate when and if we will generate significant revenues in the future.

Research and Development Expenses

See "– C. Research and Development, Patents and Licenses" below.

General and Administrative Expenses

General and administrative expenses consist primarily of compensation for employees, directors and consultants in executive and operational functions and professional services. Other significant general and administration costs include office related expenses and travel, conferences, investor relations and other costs.

Financial Income and Expense

Financial income and expense consist of non-cash financing expenses in connection with accretion and settlement of royalty obligations to investors, interest earned on our cash, cash equivalents and short-term bank deposits, bank fees and other transactional costs and expense or income resulting from fluctuations of the U.S. dollar and other currencies, in which a portion of our assets and liabilities are denominated in NIS. In 2013, the majority of the financial income, net was from a gain on financial assets at fair value and from changes in the exchange rates on our cash, cash equivalents and bank deposits held in currencies other than the U.S. dollar. In 2012, the majority of the finance expenses were accretion and settlement of royalty obligations to investors.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with International Financial Reporting Standards, or IFRS, requires companies to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and judgments are subject to an inherent degree of uncertainty, and actual results may differ. Our significant accounting policies are more fully described in Note 2 to our financial statements included elsewhere in this Annual Report. Critical accounting estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances, and are particularly important to the portrayal of our financial position and results of operations. Our estimates are primarily guided by observing the following critical accounting policies:

Impairment of Intangible Assets - Since the development of our therapeutic candidates has not yet been completed and they are defined as research and development assets acquired by us, we review, on an annual basis or when indications of impairment are present, whether those assets are impaired. We make judgments to determine whether indications are present that require reviewing the impairment of these intangible assets. An impairment loss is recognized for the amount by which the assets' carrying amount exceeds its recoverable amount. The recoverable amounts of cash generating units are based on our estimates as to the development of the therapeutic candidates, changes in market scope, market competition and timetables for regulatory approvals. Since our inception, we have not recognized impairment to our intangible assets. Since the above require certain judgments and the use of estimates, actual results may differ from our estimations and as a result would increase or decrease our related actual results.

Recent Accounting Pronouncements

The recent accounting pronouncements are set forth in Note 2 to our audited financial statements beginning on page F-1 of this Annual Report. We are assessing the expected effect of the accounting pronouncements on our financial statements.

A. Operating Results

History of Losses

Since inception in 2009, we have generated significant losses mainly in connection with the research and development of our therapeutic candidates. Such research and development activities are expected to expand over time and will require further resources if we are to be successful. As a result, we expect to continue incurring operating losses, which may be substantial over the next several years, and we will need to obtain additional funds to further develop our research and development programs. As of December 31, 2013, we had an accumulated deficit of approximately $33.3 million.

We expect to continue to fund our operations over the next several years through public or private equity offerings, debt financings or through commercialization of our therapeutic candidates.

As of December 31, 2013, we had approximately $12.1 million of cash, cash equivalents and short term investments, and as of February 23, 2014, following the closing of the private placement transactions and the exercise of warrants, we had cash and short term investments of approximately $34.2 million.

Quarterly Results of Operations

The following tables show our unaudited quarterly statements of operations for the periods indicated. We have prepared this quarterly information on a basis consistent with our audited financial statements and we believe it includes all adjustments, consisting of normal recurring adjustments necessary for a fair statement of the information shown. Operating results for any quarter are not necessarily indicative of results for a full fiscal year.

Three Months Ended

Statements of operations	March 31	June 30	Sep. 30	Dec. 31	March 31	June 30	Sep. 30	Dec. 31	March 31	June 30	Sep. 30	Dec. 31
	2011				2012				2013			
Revenues	6	3	11	3	4	5	3	4	4	4	3	1
Research and development expenses	843	1,176	1,540	1,855	2,330	1,498	1,379	1,248	1,346	1,982	2,207	2,565
General and administrative expenses	509	679	687	607	607	573	550	871	675	548	545	916
Operating loss	1,346	1,852	2,216	2,459	2,933	2,066	1,926	2,115	2,017	2,526	2,749	3,480
Financial income	765	381	20	5	258	40	57	(158)	43	17	53	45
Financial expenses	8,045	57	533	166	59	247	98	1.079	3	3	3	5
Net loss	8,626	1,528	2,729	2,620	2,734	2,273	1,967	2,352	1,977	2,512	2,699	3,440

Our quarterly revenues and operating results of operations have varied in the past and are expected to vary in the future due to numerous factors. We believe that period-to-period comparisons of our operating results are not necessarily meaningful and should not be relied upon as indications of future performance.

Comparison of the Year Ended December 31, 2013 to the Year Ended December 31, 2012

Research and Development Expenses

Research and development expenses for the year ended December 31, 2013 were $8.1 million, an increase of $1.6 million, or 25%, compared to $6.5 million for the year ended December 31, 2012. The increase resulted primarily from approximately $2.4 million in clinical trial costs related mainly to RHB-102, RHB-103 and RHB-104 and RHB-105 which were partially offset mainly by a $1 million discount from the Canadian service provider mainly related to RHB-104 development expenses.

General and Administrative Expenses

General and administrative expenses for the year ended December 31, 2013 were $2.7 million, an increase of $0.1 million, or 4%, compared to $2.6 million for the year ended December 31, 2012. The increase resulted primarily from an increase in payroll and related expenses as result of recruitments of new employees, partially offset by a decrease in share-based payments.

Operating Loss

During the year ended December 31, 2013 our operating loss was approximately $10.8 million, an increase of $1.8 million, or 20%, compared to $9 million for the year ended December 31, 2012. The increase in operating loss was mainly due to an increase in our research and development activities mentioned above.

Financing Income and Expenses

We recognized net financial income of $0.1 million for the year ended December 31, 2013, compared to net financial expenses of $1.3 million for the year ended December 31, 2012. The income for the year of 2013 derived from fair value gain on financial assets and changes in exchange rates while the expenses for the year of 2012 represented primarily a non-cash financing expense of $1.5 million due to the accretion and settlement of royalty obligations to investors.

Comparison of the Year Ended December 31, 2012 to the Year Ended December 31, 2011

Research and Development Expenses

Research and development expenses for the year ended December 31, 2012 were $6.5 million, an increase of $1.1 million, or 20%, compared to $5.4 million for the year ended December 31, 2011. The increase resulted primarily from approximately $1.2 million in manufacturing and clinical trial costs related to the development of RHB-102, RHB-103, RHB-104 and RHB-105 and clinical trials costs related to RHB-102 and RHB-103.

General and Administrative Expenses

General and administrative expenses for the year ended December 31, 2012 were $2.6 million, an increase of $0.1 million, or 0.4%, compared to $2.5 million for the year ended December 31, 2011. The increase resulted primarily from major increase in professional services mainly due to the NASDAQ listing that was mostly offset by a decrease in share-based payments expenses.

Operating Loss

During the year ended December 31, 2012 and 2011, our operating loss was approximately $9.0 million and $7.9 million, respectively. This increase in operating loss was mainly due to an increase in our research and development activities mentioned above.

Financing Income and Expenses

We recognized net financial expenses of $1.3 for the year ended December 31, 2012, compared to net financial expenses of $7.6 million for the year ended December 31, 2011. The expenses for the year of 2012 represented primarily a non-cash financing expense of $1.5 million due to the accretion and settlement of royalty obligations to investors. The expenses for the year of 2011 represented primarily one-time non-cash financing expense of $7.9 million related to the revaluation of our mandatory convertible loans at fair value at the time of their conversion into shares prior to our initial public offering.

B. Liquidity and Capital Resources

Liquidity and Capital Resources

Our therapeutic candidates are in the research and development stage and therefore do not generate significant revenues. To date, our activities have been financed by raising capital. Since inception, we have raised an aggregate of approximately $12.6 million from private investors pursuant to investment and/or loan agreements prior to the initial public offering on the Tel Aviv Stock Exchange, gross proceeds of approximately $14 million from our initial public offering on the Tel Aviv Stock Exchange, gross proceeds of approximately $3.1 million from the exercise of non-tradable options and warrants following the listing and gross proceeds of approximately $4 million (based on the representative U.S. dollar–NIS rate of exchange of 3.48 on February 2, 2014) from the exercise of series 1 tradable warrants, gross process of approximately $6.5 million in a private financing shortly prior to the listing on NASDAQ, gross proceeds of approximately $8.5 million in a private financing of ADSs in January 2014, and gross proceeds of approximately $11.7 million in a private financing of shares in January 2014 (based on the representative U.S. dollar–NIS rate of exchange of 3.49 on January 22, 2014). As December 31, 2013, we had approximately $12.1 million of cash, cash equivalents and short term investments.

Below is a summary of our material financing transactions since our inception:

From September to November 2009, we entered into investment agreements pursuant to which we raised an aggregate of $975,000 from the issuance of 649,673 preferred shares and 129,935 warrants exercisable into preferred shares at an exercise price of $0.45 per preferred share. We received gross proceeds of an aggregate of $584,000 from the subsequent exercise of all warrants issued under our 2009 investment agreements for 1,299,347 preferred shares.

From June 2010 to August 2010, we entered into loan agreements with a number of investors, pursuant to which we received gross proceeds of approximately $3.5 million. The loans issued under these loan agreements accrued interest at an annual rate of 8% and were payable upon conversion of the loans. Under the terms of the loan agreements, we agreed to pay the investors certain royalty payments with regard to possible future sales of two of our therapeutic candidates. The loan agreements were subsequently replaced in their entirety by a mandatory convertible loan agreement, other than the obligation to pay royalties to the investors which remained in effect. On December 26, 2012, we acquired these royalty rights from all of the investors and then terminated them in consideration for the issuance of 2,317,186 ordinary shares. The mandatory convertible loan agreement subsequently was converted into shares and warrants immediately prior to the completion of our initial public offering on the Tel Aviv Stock Exchange. See “Item 7. Major Shareholders – B. Related Party Transactions –Acquisition of Royalties Rights.”

On November 7, 2010, we entered into additional mandatory convertible loan agreements with a number of investors pursuant to which we received proceeds of approximately $7.6 million. The loans accrued interest at an annual rate of 8%. Such loans were subsequently converted into shares and warrants immediately prior to the completion of our initial public offering on the Tel Aviv Stock Exchange.

On February 3, 2011, we raised gross proceeds of approximately $14 million in connection with our initial public offering on the Tel Aviv Stock Exchange of 14,302,300 ordinary shares and 7,151,150 tradable Series 1 Warrants. Each tradable Series 1 Warrant was exercisable through February 2, 2014 into one ordinary share. By February 2, 2014, the warrant expiration date, 3,246,082 Series 1 Warrants had been exercised for an aggregate amount of $4 million (based on the representative U.S. dollar–NIS rate of exchange of 3.498 on February 2, 2014).

Since our initial public offering, investors in our mandatory convertible loans exercised 3,414,523 warrants for an aggregate gross amount of approximately $2.8 million. The unexercised warrants have expired.

On January 10, 2013, we issued in a private placement 6,481,280 ordinary shares at a price per share of NIS 4.00 (approximately $1.14 based on the representative U.S. dollar – NIS rate of exchange of 3.51 on February 23, 2014) and non-tradable warrants to purchase up to 3,240,640 ordinary shares at exercise prices ranging from $1.18 to $1.54, depending on the date of exercise.

The warrants are exercisable until January 10, 2015. The current exercise price for each warrant share (the "Warrant Price") is $1.54. As of February 24, 2014, 336,400 warrants had been exercised at a price of $1.34 per share for aggregate proceeds to the Company of approximately $451,000.

On January 8, 2014, we issued in a private placement a total of 894,740 units, each consisting of one ADS and a three-year warrant to purchase 0.4 of an ADS, at a purchase price of $9.50 per Unit, for an aggregate gross amount of $8.5 million. We also issued warrants to purchase 357,896 ADSs in the aggregate at an exercise price of $11 per ADS. Investors in the private placement were OrbiMed Israel Partners Limited Partnership and Broadfin Healthcare Master Fund, LTD.

On January 21, 2014, we issued in a private placement a total of 10,458,740 ordinary shares at a purchase price of NIS 3.9 per share and three-year warrants to purchase 4,183,496 ordinary shares in the aggregate at an exercise price of NIS 4.9 per ordinary share, linked to changes in the NIS-US dollar exchange rate, for an aggregate gross amount of $11.7 million (based on the representative U.S. dollar–NIS rate of exchange of 3.49 on January 22, 2014). Investors in the private placement were Israeli institutional investors Migdal Insurance Company, Yelin Lapidot, and Excellence Nessuah, as well as Sphera Global Healthcare Master Fund and two private Israeli investment firms.

We estimate that so long as no significant revenues are generated from our therapeutic candidates, we will need to raise substantial additional funds to acquire, develop and commercialize therapeutic candidates, as our current cash and short-term investments are not sufficient to complete the research and development of all of our therapeutic candidates and fund our operations. However, additional financing may not be available on acceptable terms, if at all. Our future capital requirements will depend on many factors including but not limited to:

- the regulatory path of each of our therapeutic candidates;
- our ability to successfully commercialize our therapeutic candidates, including securing commercialization agreements with third parties and favorable pricing and market share;
- the progress, success and cost of our clinical trials and research and development programs;
- the costs, timing and outcome of regulatory review and obtaining regulatory approval of our therapeutic candidates and addressing regulatory and other issues that may arise post-approval;
- the costs of enforcing our issued patents and defending intellectual property-related claims;
- the costs of developing sales, marketing and distribution channels;
- our consumption of available resources more rapidly than currently anticipated, resulting in the need for additional funding sooner than anticipated; and
- we may consume available resources more rapidly than currently anticipated, resulting in the need for additional funding sooner than anticipated.

If we are unable to commercialize or out-license its therapeutic candidates or obtain future financing, we may be forced to delay, reduce the scope of, or eliminate one or more of our research and development programs related to the therapeutic candidates, which may have material adverse effect on our business, financial condition and results of operations. "Item 3. Key Information – D. Risk Factors – Risk Related to Our Financial Condition and Capital Requirements – Our current working capital is not sufficient to complete our research and development with respect to all of our therapeutic candidates. We will need to raise additional capital to achieve our strategic objectives of acquiring, developing and commercializing therapeutic candidates, and our failure to raise sufficient capital would significantly impair our ability to fund our operations, develop our therapeutic candidates, attract development and/or commercial partners and retain key personnel."

Cash Flow

Operating activities

For the year ended December 31, 2013, net cash flow used in operating activities was approximately $8.4 million, compared to approximately $6.8 million for the year ended December 31, 2012 and $4.7 million for the year ended December 31, 2011. The increase in net cash flow used in operating activities was a direct result of the increase in our operations, reflected mainly by increased research and development expenses. The increase in net cash flow used in operating activities in 2012 compared to 2011 was a direct result of the significant increase in our operations, reflected by increased payments for research and development activities and increased payment of salaries, consultant fees, and payments to other service providers.

Investment activities

Net cash flow resulted from investing activities for the year ended December 31, 2013 was approximately $1.1 million, compared to approximately net cash flow $3.0 million in the year ended December 31, 2012 and net cash of $4.7 million used in the year ended December 31, 2011. For the year ended December 31, 2013, we invested a total of $0.2 million in intangible assets and we received proceeds of $0.9 million from sale financial assets at fair value and $0.5 million from withdrawal from bank deposits to cash and cash equivalents. For the year ended December 31, 2012, we invested a total of $1 million in the purchasing of marketable securities and we received proceeds of $1.6 million from sale of marketable securities and $2.5 million from withdrawal from bank deposits to cash and cash equivalents. For the year ended December 31, 2011, we invested a total of $4.5 million in bank deposits and in purchasing of marketable securities.

Financing activities

Net cash flow resulting from financing activities for the year ended December 31, 2013 amounted to approximately $2.3 million, compared with approximately $6.6 million for the year ended December 31, 2012 and $13.8 million for the year ended December 31, 2011. In 2013, most of the cash flows from financing activities resulted from the exercise of warrants from the August and November 2010 mandatory convertible loans in a total amount of $2.2 million, while in 2012 most of the cash flow was from investment agreements for the issuance ordinary shares and warrants in consideration of an aggregate investment amount of approximately $6.2 million, and in 2011 most of the cash flow was from financing activities derived from cash raised in our initial public offering.

C. Research and Development, Patents and Licenses

Our research and development expenses consist primarily of costs of clinical trials, professional services, share-based payments and payroll and related expenses. The clinical trials costs are mainly related to payments to third parties to manufacture our therapeutic candidates, to perform clinical trials with our therapeutic candidates and to provide us with regulatory services. We charge all research and development expenses to operations as they are incurred. We expect our research and development expense to remain our primary expense in the near future as we continue to develop our therapeutic candidates.

Clinical trial expenses

Set forth below is a summary of the gross external clinical trial costs allocated to our therapeutic candidates on an individual basis for the years ended December 31, 2011, 2012 and 2013.

	2011	2012	2013	Total Costs Since Project Inception
RHB-101	0.2	-	0.1	0.3
RHB-102	0.3	1.0	0.9	2.3
RHB-103	0.2	0.6	0.3	1.1
RHB-104	1.4	1.6	3.1	6.1
RHB-105	0.2	0.3	0.6	1.1
RHB-106	0.2	0.1	-	0.3
Total direct project costs	2.5	3.6	5.0	11.2

Research and development expenses

From our inception through December 31, 2013, we have incurred research and development expenses of approximately $20.8 million. Set below is a summary of our research and development expenses based on the type of expenditure.

	Amount invested in R&D (U.S. dollars in millions)			
	2011	2012	2013	From incorporation date until December 31, 2013
Payroll and related expenses	0.4	0.5	0.5	1.5
Professional services	0.7	0.9	1.3	3.3
Share-based payments	1.4	0.9	0.8	3.1
Clinical trials, net	2.5	3.6	5.0	11.2
Patents expenses	0.2	0.3	0.2	0.8
Other	0.2	0.3	0.3	0.9
Total	5.4	6.5	8.1	20.8

Due to the inherently unpredictable nature of clinical development processes, we are unable to estimate with any certainty the costs we will incur in the continued development of the therapeutic candidates in our pipeline for potential commercialization.

While we are currently focused on advancing each of our therapeutic candidates, our future research and development expenses will depend on the clinical success of each therapeutic candidate, as well as available resources and the ongoing assessments of each therapeutic candidate's commercial potential. In addition, we cannot forecast with any degree of certainty which therapeutic candidates may be subject to future commercialization arrangements, when such commercialization arrangements will be secured, if at all, and to what degree such arrangements would affect our development plans and capital requirements. See "Item 3. Key Information – D. Risk Factors – If we and/or our commercialization partners are unable to obtain U.S. Food and Drug Administration and/or other foreign regulatory authority approval for our therapeutic candidates, we and/or our commercialization partners will be unable to commercialize our therapeutic candidates."

As we obtain results from clinical trials, we may elect to discontinue or delay development and clinical trials for certain therapeutic candidates in order to focus our resources on more promising therapeutic candidates or projects. Completion of clinical trials by us or our licensees may take several years or more, but the length of time generally varies according to the type, complexity, novelty and intended use of a therapeutic candidate. See "Item 3. Key Information – D. Risk Factors – Risks Related to Our Business and Regulatory Matters."

We expect our research and development expenses to increase from current levels as we continue the advancement of our clinical trials and therapeutic candidates' development. The lengthy process of completing clinical trials and seeking regulatory approvals for our therapeutic candidates requires substantial expenditures. Any failure or delay in completing clinical trials, or in obtaining regulatory approvals, could cause a delay in generating product revenue and cause our research and development expenses to increase and, in turn, have a material adverse effect on our operations. Due to the factors set forth above, we are not able to estimate with any certainty if and when we would recognize any net revenues from our projects.

D. **Trend Information**

We are an emerging Israeli biopharmaceutical company focused primarily on the development and acquisition of our therapeutic candidates. It is not possible for us to predict with any degree of accuracy the outcome of our research and development or our commercialization success with regard to any of our therapeutic candidates. Our research and development expenditure is our primary expenditure. Increases or decreases in research and development expenditures are primarily attributable to the level and results of our clinical trial activities and the amount of expenditure on those trials.

E. **Off-Balance Sheet Arrangements**

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

F. **Tabular Disclosure of Contractual Obligations**

The following table summarizes our significant contractual obligations on December 31, 2013:

	Total	Less than 1 year	1-3 Years	3-5 years	More than 5 years
			(U.S. dollars in thousands) (Unaudited)		
Office lease obligations	640	208	415	17	-
Accounts payable and accrued expenses	2,415	2,415			
Total	3,055	2,623	415	17	-

The foregoing table does not include our in-license agreements with Egalet a/s, SCORR Pharma, Inc. and IntelGenx Corp., our agreement with the University of Central Florida Research Foundation, Inc., and our asset sale agreement with Giaconda Limited, pursuant to which we are obligated to make various payments upon the achievement of agreed upon milestones and/or make certain royalty payments since we are unable to currently estimate the actual amount or timing of these payments. If all of the milestones are achieved over the life of each in-licensing agreement, we will be required to pay, in addition to royalties on our net income, an aggregate amount of approximately $1.9 million. All of our in-licensing agreements are terminable at-will by us upon prior written notice of 30 days. See “Item 4. Information on the Company — Business Overview — Acquisition and License Agreements.”

The foregoing table also does not include payments payable under our manufacturing agreements or payments under our clinical services agreements, all of which are contingent upon the completion of milestones. See “Item 4. Information on the Company - Business Overview - Manufacturing Agreements” and “Item 4. Information on the Company – Business Overview – Clinical Services Agreement Related to RHB-104.”

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

The following table sets forth the name, age and position of each of our executive officers and directors as of the date of this Annual Report.

Name	Age	Position(s)
Executive Officers		
Dror Ben-Asher	48	Chief Executive Officer and Chairman of the board of directors
Ori Shilo	47	Deputy Chief Executive Officer Finance and Operations, and Director
Reza Fathi, Ph.D.	59	Senior Vice President Research and Development
Gilead Raday	39	Senior Vice President Corporate and Product Development
Adi Frish	44	Senior Vice President Business Development and Licensing
Guy Goldberg	38	Chief Business Officer
Uri Hananel Aharon	33	Chief Accounting Officer
Directors		
Dr. Shmuel Cabilly (2)	64	Director
Eric Swenden	70	Director
Dr. Kenneth Reed	60	Director
Dan Suesskind (1)	70	Director
Ofer Tsimchi (1), (2)	54	External Director
Aliza Rotbard (1), (2)	68	External Director

(1) Member of our audit committee that also serves as our financial statements committee.
(2) Member of our compensation committee.

Executive officers

Dror Ben-Asher has served as our Chief Executive Officer and as a director since August 3, 2009. Since May 4, 2011, Mr. Ben- Asher has also served as Chairman of our board of directors. From January 2002 to November 2010, Mr. Ben- Asher served as a manager at P.C.M.I. Ltd., an affiliate of ProSeed Capital Holdings CVA, which provides us with certain advisory services. Mr. Ben-Asher is currently a director at Agrea Ltd. Mr. Ben-Asher holds an LLB from the University of Leicester, UK, an MJur. from Oxford University, UK and completed LLM studies at Harvard University in the U.S.

Ori Shilo has served as our Deputy Chief Executive Officer Finance and Operations since November 1, 2010 and as a director since August 3, 2009. From 2009 to 2010, Mr. Shilo served as our Vice President Finance and Operations. From 2000 to 2010, Mr. Shilo served as Chief Executive Officer of P.C.M.I. Ltd. Mr. Shilo is currently a director at P.C.M.I. Ltd. and G. Shilo Holdings Ltd. Mr. Shilo holds a B.A in Business Administration from the Academic College for Management in Rishon Lezion, Israel and an MBA in Business Administration from the Ben Gurion University in Beer Sheva, Israel. The board of directors has determined that Mr. Shilo is a financial and accounting expert under Israeli law.

Reza Fathi, Ph.D., has served as our Senior Vice President Research and Development since May 1, 2010. From 2005 to 2009, Dr. Fathi served as a Director of Research in XTL Biopharmaceuticals Inc., a biotechnology company engaged in developing small molecule clinical candidates for infectious diseases. Prior to that, between 2000-2005, Dr. Fathi served as Director of Research at Vivoquest, Inc., responsible for developing a number of novel natural product based combinatorial technologies for infectious diseases such as HCV and HIV. Between 1998-2000, he served as a Manager of Chemical Biology Research at the Institute of Chemistry and Chemical Biology (ICCB) at Harvard Medical School, pioneering chemical genetics to identify small molecules in cancer biology, and from 1991-1998 headed the Discovery Group at PharmaGenics, Inc. Dr. Fathi holds a Postdoctoral and Ph.D. in Chemistry from Rutgers University, NJ, U.S.

Gilead Raday has served as our Senior Vice President Corporate and Product Development since December 5, 2012. From November 2010 to December 2012, Mr. Raday served as our Vice President Corporate and Product Development. From January 2010 until October 2010, Mr. Raday served as Interim Chief Executive Officer of Sepal Pharma Plc., an oncology drug development company, and from January 2009 to December 2009, he was an independent consultant, specializing in business development and project management in the field of life sciences. From 2004 to 2008, Mr. Raday was a partner in Charles Street Securities Europe, LLP, an investment banking firm, where he was responsible for the field of life sciences. Mr. Raday serves on the boards of Sepal Pharma Plc., and ViDAC Limited. Mr. Raday previously served on the boards of Morria Biopharmaceuticals Plc.,Vaccine Research International Plc., TKsignal Plc., and Miras Medical Imaging Plc. He received his MSc in Neurobiology from the Hebrew University of Jerusalem and an MPhil in Biotechnology Management from Cambridge University, UK.

Adi Frish has served as our Senior Vice President Business Development and Licensing since December 5, 2012. From October 2010 to December 2012, Mr. Frish served as our Vice President Business Development and Licensing. From 2006 to 2010, Mr. Frish served as the Chief Business Development at Medigus Ltd., a medical device company in the endoscopic field, and from 1998 to 2006, Mr. Frish was an associate and a partner at the law firm of Y. Ben Dror & Co. Mr. Frish holds an LLB from Essex University, UK and an LLM in Business Law from the Bar-Ilan University, Israel.

Guy Goldberg has served as our Chief Business Officer since July 16, 2012. From July 2007 to July 2012, Mr. Goldberg served as Vice President and then as Senior Vice President of Business Operations at Eagle Pharmaceuticals, a specialty injectable drug development company, based in New Jersey. From 2004 to 2007, Mr. Goldberg was an associate at ProQuest Investments, a healthcare focused venture capital firm, and from 2002 to 2004, Mr. Goldberg was a consultant at McKinsey & Company. Mr. Goldberg holds a B.A. in Economics and Philosophy from Yale University and a J.D. from Harvard Law School in the U.S.

Uri Hananel Aharon has served as our Chief Accounting Officer since April 12, 2011. From 2007 to 2011, Mr. Aharon served as a team manager at Ernst & Young Israel, specializing in auditing and financial consulting for companies traded on The Nasdaq Stock Market and the Tel Aviv Stock Exchange, both in the biotech and high-tech sectors. From 2004 to 2007, Mr. Aharon served as an accounting intern at Ziv Haft, BDO. Mr. Aharon holds a BA in Accounting and Economics from the Hebrew University of Jerusalem, Israel and an MBA in Business Taxation from the Academic College for Management in Rishon Lezion, Israel.

Directors

Dr. Shmuel Cabilly has served as a member of our board of directors since August 26, 2010, and has served on our compensation committee since May 5, 2011. Dr. Cabilly currently serves on the board of directors of BioKine Therapeutics Ltd., Biologic Design Ltd., Mobydom Ltd., Neuroderm Ltd., Dentack Implants Ltd., Ornim Inc., OPLON B.V., Efranat Ltd. and BioCep Ltd. Dr. Cabilly holds a BSC Biology from the Ben Gurion University of Beer Sheva, Israel, an MSC in Immunology and Microbiology from the Hebrew University of Jerusalem, Israel and a PhD in Immunology and Microbiology from the Hebrew University of Jerusalem, Israel.

Eric Swenden has served as a member of our board of directors since May 3, 2010, and has served on our investment committee since May 5, 2011. From 1966 until 2001 Mr. Swenden served in various positions including Chief Executive Officer (since 1985) and Executive Chairman (since 1990) of Vandemoortele Food Group, a privately held Belgium-based European food group with revenue of approximately EUR 2 billion, and he currently serves on the board of directors of Lifeline Scientific, Inc., TBC S.A., Alterpharma N.V. and Gudrun N.V. Mr. Swenden holds an M.A. in Commercial Science from the University of Antwerp, Belgium. The board of directors has determined that Mr. Swenden is a financial and accounting expert under Israeli law.

Dr. Kenneth Reed has served as a member of our board of directors since December 15, 2009. Dr. Reed is a dermatologist, practicing in a private practice under the name of Kenneth Reed MD PC. Dr. Reed currently serves on the board of directors of Minerva Biotechnologies Corporation. Dr. Reed received his B.A from Brown University in the United States and a M.D. from the University of Medicine and Dentistry of New Jersey in the U.S. Dr. Reed is a board certified dermatologist with over 25 years of clinical experience since completing the Harvard Medical School Residency Program in Dermatology.

Dan Suesskind has served as a member of our board of directors since February 21, 2011, and has served on our audit committee and investment committee since May 5, 2011. From 1977 to 2008, Mr. Suesskind served as the Chief Financial Officer of Teva Pharmaceutical Industries Ltd. Mr. Suesskind served as a director of Teva Pharmaceutical Industries Ltd. between 1981 to 2001 and again since 2010. In addition, Mr. Suesskind currently serves on the board of directors of Syneron Medical Ltd., Israel Corporation Ltd. as well as a member of the board of trustees of the Hebrew University. Mr. Suesskind is one of the founders and a member of the steering committee of the Israeli Forum of Chief Financial Officers. Mr. Suesskind holds a BA in Economics and Political Science from the Hebrew University of Jerusalem, Israel and an MBA in Business Administration from University of Massachusetts in the U.S. The board of directors has determined that Mr. Suesskind is a financial and accounting expert under Israeli law.

Ofer Tsimchi has served as an external director on our board of directors since May 4, 2011, a member of our audit committee and as the Chairman of our compensation committee since May 5, 2011. Since 2008, Mr. Tsimchi has served as the Chairman of the board of directors of Polysack Plastic Industries Ltd. and Polysack-Agriculture Products, and since 2006 he has served as a Partner in the Danbar Group Ltd., a holding company. Mr. Tsimchi currently serves on the board of directors of Polysack Plastic Industries Ltd, Kidron Industrial Materials Ltd., Amutat Zionut 2000, Danbar Group Ltd, and Polysack Agriculture Hi-Technologies. Mr. Tsimchi received his BA in Economics and Agriculture from the Hebrew University of Jerusalem, Israel. The board of directors has determined that Mr. Tsimchi is a financial and accounting expert under Israeli law.

Aliza Rotbard has served as an external director on our board of directors since May 4, 2011, as the Chairman of our audit committee and a member of our compensation committee since May 5, 2011. Ms. Rotbard served as the Deputy General Manager of the Tel-Aviv Stock Exchange, was the founder and CEO of DOORS Information Systems and currently serves as an external director of Kamada Ltd., ProSeed Venture Capital Fund Ltd., AIG-American Insurance Group, Hadera Paper Ltd., R.V.B. Holdings Ltd. and Queenco Leisure International Ltd. Ms. Rotbard also serves as a director of Israel Discount Bank, MobileMax Technologies Ltd. and Pointer Telocation Ltd. Ms. Rotbard holds a B.Sc. in Mathematics and Physics from the Hebrew University of Jerusalem, Israel. The board of directors has determined that Ms. Rotbard is a financial and accounting expert under Israeli law.

B. Compensation

The aggregate compensation paid, and benefits in-kind granted to or accrued on behalf of all of our executive officers and directors for their services, in all capacities, to us during the year ended December 31, 2013 was approximately $2.4 million. Out of that amount $1.3 million was paid as salary and consultants fees, $0.9 million was attributed to the value of the options granted to directors and senior management during 2013, approximately $0.1 million was attributed to retirement plans and $0.1 million attributed to other long-term benefits. No additional amounts have been set aside or accrued by us to provide pension, retirement or similar benefits.

Employment Agreements

We have entered into employment or consultant agreements with each of our executive officers. All of these agreements contain customary provisions regarding noncompetition, confidentiality of information and assignment of inventions. However, the enforceability of the noncompetition provisions may be limited under applicable laws.

For information on exemption and indemnification letters granted to our officers and directors, please see " – 6.C. Board Practices – Exemption, Insurance and Indemnification of Directors and Officers."

Director Compensation

Under the Israeli Companies Law, and related regulations, external directors are entitled to a fixed annual compensation and an additional payment for each meeting attended. We currently pay our external directors, Mr. Ofer Tsimchi and Ms. Aliza Rotbard, an annual cash fee of NIS 42,200 (approximately $12,000, based on the representative U.S. dollar – NIS rate of exchange of 3.51 on February 23, 2014) and a cash fee of NIS 2,820 (approximately $800, based on the representative U.S. dollar – NIS rate of exchange of 3.51 on February 23, 2014) per meeting (or a smaller amount in case they do not physically attend the meeting).

Effective as of October 1, 2011, Dr. Reed, Mr. Swenden, Dr. Cabilly and Mr. Suesskind receive the same cash remuneration as was approved for the external directors as described above.

On July 18, 2013, our shareholders approved equity grants to each of Mr. Swenden, Dr. Reed and Mr. Suesskind. On July 31, 2013, each of Mr. Swenden, Dr. Reed and Mr. Suesskind was granted seven (7) year options to purchase 100,000 ordinary shares at an exercise price of $1.12 per share. The options vest quarterly over four (4) years in equal parts, which commenced retroactively as of April, 1, 2013. The options will become fully vested, in accordance with the terms of the grant, on March 31, 2017.

Executives and Directors Compensation

Employment Agreement with Mr. Dror Ben-Asher

On November 1, 2010 we entered into an employment agreement with Mr. Dror Ben-Asher, pursuant to which he serves as our Chief Executive Officer. Mr. Ben-Asher also currently serves as Chairman of our board of directors.

Pursuant to the terms of the agreement, as amended, Mr. Ben-Asher is entitled to a monthly salary of NIS 55,000 (approximately $16,000, based on the representative U.S. dollar – NIS rate of exchange of 3.51on February 23, 2014), a car allowance of NIS 6,000 (approximately $1,700, based on the representative U.S. dollar – NIS rate of exchange of 3.51on February 23, 2014), reimbursement for all mobile phone expenses, contributions to a pension fund/directors' insurance fund, advanced study fund, disability insurance and leave days, all as provided for in his employment agreement.

The agreement further provides that if the agreement is terminated in connection with a "hostile takeover," Mr. Ben-Asher shall be entitled to a special one-time bonus equal to his then current monthly salary and retirement benefits, including payments to an advanced study fund and pension arrangement and car expense reimbursement, multiplied by 12. A "hostile takeover" is defined in the employment agreement as an occurrence where a person, entity or group that was not an interested party under the Israeli Securities on the date of the initial public offering of our ordinary shares, becomes a "controlling shareholder," within the meaning of such term in the Israeli Securities Law 1968, or a "holder," as defined in the Israel Securities Law 1968, of 25% or more of the voting rights in the Company. See " – E. Share Ownership –Option Plan" for a description of interested parties under the Israeli Securities Law. In addition, on January 19, 2011, we amended the terms of Mr. Ben-Asher's options to provide that in the event any person, entity or group that was not an interested party at the time of our IPO becomes a "controlling shareholder", as defined in our 2010 Option Plan, all options granted to Mr. Ben-Asher prior to the IPO, including the options granted subject to completion of our IPO shall immediately vest in full. In addition, on September 24, 2012, our board of directors approved the amendment of the terms of Mr. Ben-Asher's options to provide that in the event any person, entity or group that was not an interested party at the time of our IPO becomes a "controlling shareholder", as defined in our 2010 Option Plan, all options granted to Mr. Ben-Asher after completion of our IPO shall immediately vest in full. The September 24, 2012 amendment was approved by our shareholders on November 6, 2012. See " – E. Share Ownership –Option Plan" for a description of interested parties under the Israeli Securities Law – 1968.

We may terminate the employment agreement with Mr. Ben-Asher upon 180-days prior notice, while Mr. Ben-Asher may terminate the agreement upon 90-days prior notice.

On July 31, 2013 we granted Mr. Ben-Asher seven (7) year options to purchase 300,000 ordinary shares at an exercise price of $1.12 per share. The options vest quarterly over four (4) years in equal parts, which commenced retroactively as of April, 1, 2013. The options will become fully vested, in accordance with the terms of the grant, on March 31, 2017.

Employment Agreement with Mr. Ori Shilo

On November 1, 2010, we entered into an employment agreement with Mr. Ori Shilo, pursuant to which Mr. Shilo serves as our Deputy Chief Executive Officer Finance and Operations. Mr. Shilo also currently serves as one of our directors.

Pursuant to the terms of the agreement, as amended, Mr. Shilo is entitled to a monthly salary of NIS 45,000 (approximately $13,000, based on the representative U.S. dollar – NIS rate of exchange of 3.51 on February 23, 2014), a car allowance of NIS 5,000 (approximately $1,400 based on the representative U.S. dollar – NIS rate of exchange of 3.51 on February 23, 2014), reimbursement for all mobile phone expenses, contributions to a pension fund/directors' insurance fund, advanced study fund, disability insurance and leave days, all as provided for in his employment agreement.

The agreement further provides that if the agreement is terminated in connection with a "hostile takeover", Mr. Shilo will be entitled to a special one-time bonus equal to his then current monthly salary and retirement benefits, including payments to an advanced study fund and pension arrangement and car expense reimbursement, multiplied by 12. In addition, on January 19, 2011, we amended the terms of Mr. Shilo's options to provide that in the event any person, entity or group that was not an interested party at the time of our IPO becomes a "controlling shareholder", as defined in our 2010 Option Plan, all options granted to Mr. Shilo prior to the IPO, including the options granted subject to completion of our IPO shall immediately vest in full. In addition, on September 24, 2012, our board of directors approved the amendment of the terms of Mr. Shilo's options to provide that in the event any person, entity or group that was not an interested party at the time of our IPO becomes a "controlling shareholder", as defined in our 2010 Option Plan, all options granted to Mr. Shilo after completion of our IPO shall immediately vest in full. The September 24, 2012 amendment was approved by our shareholders on November 6, 2012. See " – E. Share Ownership –Option Plan" for a description of interested parties under the Israeli Securities Law – 1968.

We may terminate the employment agreement with Mr. Shilo upon 180-days prior notice, while Mr. Shilo may terminate the agreement upon 90-days prior notice.

On July 31, 2013 we granted Mr. Shilo seven (7) year options to purchase 250,000 ordinary shares at an exercise price of $1.12 per share. The options vest quarterly over four (4) years in equal parts, which commenced retroactively as of April, 1, 2013. The options will become fully vested, in accordance with the terms of the grant, on March 31, 2017. The equity grant is in accordance with our Compensation Policy.

Compensation Policy

On July 31, 2013, our shareholders approved a compensation policy for our officers and directors in accordance with Amendment No. 20 to the Israeli Companies Law, pursuant to which we are required to determine the compensation of our officers and directors in accordance with a D&O compensation policy. The policy was previous approved by our Board of Directors, upon recommendation of our Compensation Committee.

The compensation policy is in effect for three years from the 2013 annual general meeting. The compensation policy principles were designed to grant proper, fair and well-considered remuneration to our officers, in alignment with our long-term best interests and overall organizational strategy. Part of the rationale is that the Compensation Policy should encourage our officers to identify with our objectives, and an increase in officer satisfaction and motivation should retain the employment of high-quality officers in our service over the long term.

C. Board Practices

Appointment of Directors and Terms of Officers

Pursuant to our articles of association, the size of our board of directors shall be no less than 5 persons but no more than 7, excluding at least two external directors. The directors, except for our external directors, are divided into three classes, as nearly equal in number as possible. At each annual general meeting, which is required to be held annually, but not more than fifteen months after the prior annual general meeting, the term of one class of directors expires, and the directors of such class are re-nominated to serve an additional three year term that expires at the annual general meeting held in the third year following such election. This process continues indefinitely. The directors of the first class, currently consisting of Dror Ben-Asher and Ori Shilo, will hold office until our annual general meeting to be held in the year 2014. The directors of the second class, currently consisting of Dr. Kenneth Reed, and Eric Swenden, will hold office until our annual general meeting to be held in the year 2015, and the directors of the third class, currently consisting of Dr. Shmuel Cabilly and Dan Suesskind, will hold office until our annual general meeting to be held in the year 2013. Until the next annual general meeting, the board of directors may elect new directors to fill vacancies, or increase the number of members of the board of directors up to the maximum number provided in our articles of association. Any director so appointed may hold office until the first general shareholders' meeting convened after the appointment.

Pursuant to the Israeli Companies Law, one may not be elected and may not serve as a director in a public company if he or she does not have the required qualifications and the ability to dedicate an appropriate amount of time for the performance of his duties as a director in the company, taking into consideration, among other things, the special needs and size of the company. In addition, a public company may convene an annual general meeting of shareholders to elect a director, and may elect such director, only if prior to such shareholders meeting, the nominee declares, among other things, that he or she possesses all of the required qualifications to serve as a director (and lists such qualifications in such declaration) and has the ability to dedicate an appropriate amount of time for the performance of his duties as a director of the company.

Under the Israeli Companies Law, the entering by a public company into a contract with a non-controlling director as to the terms of his office, including exculpation, indemnification or insurance, requires the approval of the compensation committee, the board of directors and the shareholders of the company.

A recent amendment to the Israeli Companies Law requires that the terms of service and engagement of the CEO, directors or controlling shareholders (or a relative thereof) receive the approval of the compensation committee, board of directors, and shareholders, subject to limited exceptions. Similarly, the terms of service and engagement of any officer other than the CEO must receive the approval of the compensation committee and board of directors. However, shareholder approval is required if the compensation of such officer other than the CEO is not in accordance with a new compensation policy the Company is required to adopt. The recent amendment to the Israeli Companies Law requires that by August 11, 2013 the board and shareholders (with approval by a Special Majority, as defined below) adopt a compensation policy applicable to Company officers and directors which must take into account, among other things, providing proper incentives to directors and officers, the risk management of the company, the officer's contribution to achieving corporate objectives and increasing profits, and the function of the officer or director. Under the Israeli Companies Law, a Special Majority requires (i) the vote of at least a majority of the shares held by shareholders who are not controlling shareholders or have a personal interest in the proposal (shares held by abstaining shareholders shall not be taken into account); or (ii) that the aggregate number of shares voting against the proposal held by such shareholders does not exceed 2% of the Company's voting shareholders.

We have service contracts with two of our directors, Dror Ben-Asher and Ori Shilo that provide for benefits upon termination of their employment as directors. For more information, see " – B. Compensation – Executives and Director Compensation."

Independent and External Directors - Israeli Companies Law Requirements

We are subject to the provisions of the Israeli Companies Law. The Israeli Minister of Justice has adopted regulations exempting companies like us whose shares are traded outside of Israel from some provisions of the Israeli Companies Law.

Under the Israeli Companies Law, companies incorporated under the laws of Israel whose shares are either (i) listed for trading on a stock exchange or (ii) have been offered to the public in or outside of Israel, and are held by the public (Public Company) are required to appoint at least two external directors. The Israeli Companies Law provides that a person may not be appointed as an external director if the person is a relative of the controlling shareholder or if the person or the person's relative, partner, employer, someone to whom he is subordinated directly or indirectly or any entity under the person's control, has, as of the date of the person's appointment to serve as external director, or had, during the two years preceding that date, any affiliation with us, our controlling shareholder, any relative of our controlling shareholder, as of the date of the person's appointment to serve as external director, or any entity in which, currently or within the two years preceding the appointment date, the controlling shareholder was the company or the company's controlling shareholder; and in a company without a controlling shareholder or without a shareholder holding 25% or more of the voting rights in the company, any affiliation to the chairman of the board of directors, to the general manager (Chief Executive Officer), to a shareholder holding 5% or more of the company's shares or voting rights, or to the chief officer in any field as of the date of the person's appointment. The term "affiliation" includes:

- an employment relationship;
- a business or professional relationship maintained on a regular basis;
- control; and
- service as an office holder, other than service as a director who was appointed in order to serve as an external director of a company when such company was about to make an initial public offering.

Under the Israeli Companies Law, an "office holder" is defined as a general manager, chief business manager, deputy general manager, vice-general manager, any person filing any of these positions in a company even if he holds a different title, director or any manager directly subordinate to the general manager.

However, a person may not serve as an external director if the person or the person's relative, partner, employer, someone to whom he is subordinated directly or indirectly or any entity under the person's control has business or professional relationship with an entity which an affiliation with is prohibited as detailed above, even if such relationship is not on a regular basis (excluding negligible relationship). In addition, a person who received compensation other than the compensation permitted by the Israeli Companies Law may not serve as an external director.

Regulations under the Israeli Companies Law, provide for various instances and kinds of relationships in which an external director will not be deemed to have "affiliation" with the public company for which he serves, or is a candidate for serving as an external director.

No person can serve as an external director if the person's positions or other businesses create, or may create a conflict of interests with the person's responsibilities as a director or may impair his ability to serve as a director. In addition, a person who is a director of a company may not be elected as an external director of another company if, at that time, a director of the other company is acting as an external director of the first company. Until the lapse of two years from termination of office, a company, its controlling shareholder, or a company controlled by him may not engage an external director, his spouse, or child to serve as an office holder in the company or in any entity controlled by the controlling shareholder and cannot employ or receive professional services for consideration from that person, and may not grant such person any benefit either directly or indirectly, including through a corporation controlled by that person. The same restrictions apply to relatives other than a spouse or a child, but such limitations shall only apply for one year from the date such external director ceased to be engaged in such capacity. In addition, if at the time an external director is appointed, all current members of the board of directors, who are neither controlling shareholders nor relatives of controlling shareholders, are of the same gender, then the external director to be appointed must be of the other gender.

Under the Israeli Companies Law, a public company is required to appoint as an external director, a person who has "professional expertise" or a person who has "financial and accounting expertise," provided that at least one of the external directors must have "financial and accounting expertise." However, if at least one of our other directors (1) meets the independence requirements of the Securities Exchange Act of 1934, as amended, (2) meets the standards of the Nasdaq Stock Market for membership on the audit committee and (3) has financial and accounting expertise as defined in the Israeli Companies Law and applicable regulations, then neither of our external directors is required to possess financial and accounting expertise as long as both possess other requisite professional qualifications. The determination whether a director possesses financial and accounting expertise is made by the board of directors.

Under the Israeli Companies Law regulations, a director having financial and accounting expertise is a person who, due to his education, experience and qualifications is highly skilled in respect of, and understands, business-accounting matters and financial reports in a manner that enables him to understand in depth the company's financial statements and to stimulate discussion regarding the manner in which the financial data is presented. Under the Israeli Companies Law regulations, a director having professional expertise is a person who has an academic degree in either economics, business administration, accounting, law or public administration or another academic degree or has completed other higher education studies, all in an area relevant to the main business sector of the company or in a relevant area for the board of directors position, or has at least five years of experience in one of the following or at least five years of aggregate experience in two or more of the following: a senior management position in the business of a corporation with a substantial scope of business, in a senior position in the public service or a senior position in the main field of the company's business.

Under the Israeli Companies Law, each Israeli public company is required to determine the minimum number of directors with "accounting and financial expertise" that such company believes is appropriate in light of the company's type, size, the scope and complexity of its activities and other factors. Once a company has made this determination, it must ensure that the necessary appointments to the board of directors are made in accordance with this determination. Our board of directors determined that two directors with "accounting and financial expertise" is appropriate for us. Our board of directors currently has five directors with such "accounting and financial expertise."

External directors are to be elected by a majority vote at a shareholders' meeting, provided that either (1) the majority of shares voted at the meeting, including at least a majority of the votes of the shareholders who are not controlling shareholders (as defined in the Israeli Companies Law), do not have a personal interest in the appointment (excluding a personal interest which did not result from the shareholder's relationship with the controlling shareholder), vote in favor of the election of the director without taking abstentions into account; or (2) the total number of shares of the above mentioned shareholders who voted against the election of the external director does not exceed two percent of the aggregate voting rights in the company.

The initial term of an external director is three years and may be extended for two additional three-year terms under certain circumstances and conditions. Nevertheless, regulations under the Israeli Companies Law provide that companies, whose shares are listed for trading both on the Tel Aviv Stock Exchange and on the Nasdaq Stock Market, may appoint an external director for additional three-year terms, under certain circumstances and conditions. External directors may be removed only in a general meeting, by the same percentage of shareholders as is required for their election, or by a court, and in both cases only if the external directors cease to meet the statutory qualifications for their appointment or if they violate their duty of loyalty to us. Each committee authorized to exercise any of the powers of the board of directors, is required to include at least one external director and the audit committee is required to include all of the external directors.

An external director is entitled to compensation and reimbursement of expenses in accordance with regulations promulgated under the Israeli Companies Law and is otherwise prohibited from receiving any other compensation, directly or indirectly, in connection with serving as a director except for certain exculpation, indemnification and insurance provided by the company.

Ms. Aliza Rotbard and Mr. Ofer Tsimchi currently serve as our external directors.

Committees

Israeli Companies Law Requirements

Our board of directors has established three standing committees, the audit committee, the compensation committee and the investment committee.

Audit Committee

Under the Israeli Companies Law, the board of directors of a public company must appoint an audit committee, comprised of at least three directors including all of the external directors.

The majority of the members of the audit committee, as well as the majority of members present at audit committee meetings, must be "independent" (as such term is defined below) and the chairman of the audit committee must be an external director. In addition, the following are disqualified from serving as members of the audit committee: the chairman of the board of directors, the controlling shareholder and her or his relatives, any director employed by the company or by its controlling shareholder or by an entity controlled by the controlling shareholder, a director who regularly provides services to the company or to its controlling shareholder or to an entity controlled by the controlling shareholder, and any director who derives most of its income from the controlling shareholder. Any persons not qualified from serving as a member of the audit committee may not be present at the audit committee meetings during the discussion and at the time decisions are made, unless the chairman of the audit committee determines that the presence of such person is required to present a matter to the meeting or if such person qualifies under an available exemption in the Companies Law.

An "independent director" is defined as an external director or a director who meets the following conditions: (i) satisfies certain conditions for appointment as an external director (as described above) and the audit committee has determined that such conditions have been met and (ii) has not served as a director of the company for more than nine consecutive years, with any interruption of up to two years in service not being deemed a disruption in the continuity of such service.

The role of the audit committee under the Israel Companies Law is to examine suspected flaws in our business management, in consultation with the internal auditor or our independent accountants and suggest appropriate course of action in order to correct such flaws. In addition, the approval of the audit committee is required to effect specified actions and related party transactions.

Additional functions to be performed by the audit committee include, among others, the following:

- determination whether certain related party actions and transactions are "material" or "extraordinary" for purposes of the requisite approval procedures;
- to assess the scope of work and compensation of the company's independent accountant;
- to assess the company's internal audit system and the performance of its internal auditor and if the necessary resources have been made available to the internal auditor considering the company's needs and size; and
- to determine arrangements for handling complaints of employees in relation to suspected flaws in the business management of the company and the protection of the rights of such employees.

Our audit committee also serves as our financial statements committee. The members of our audit committee are Ms. Aliza Rotbard, Mr. Ofer Tsimchi and Mr. Dan Suesskind.

Compensation Committee

According to the Companies Law, the board of directors of a public company must establish a compensation committee consisting of at least three directors and including all of the external directors who must constitute a majority of its members. The remaining members must be qualified to serve on the audit committee pursuant to Companies Law requirements described above. The compensation committee chairman must be an external director. Any persons not qualified from serving as a member of the compensation committee may not be present at the compensation committee meetings during the discussion and at the time decisions are made, unless the chairman of the compensation committee determines that the presence of such person is required to present a matter to the meeting or if such person qualifies under an available exemption in the Companies Law.

The provisions of the Companies Law that govern the compensation and reimbursement terms of external directors also apply to members of the compensation committee who are not external directors. Our compensation committee, which consists of Mr. Ofer Tsimchi (chairman), Ms. Aliza Rotbard and Dr. Shmuel Cabilly, administers issues relating to our global compensation plan with respect to our employees, directors and consultants. Our compensation committee is responsible for making recommendations to the board of directors regarding the issuance of share options and compensation terms for our officers and directors and for determining salaries and incentive compensation for our executive officers and incentive compensation for our other employees and consultants. Each of the members of the compensation committee is "independent" as such term is defined in the Nasdaq Listing Rules.

Investment Committee

Our investment committee, which consists of Mr. Dan Seusskind, Mr. Eric Swenden and Mr. Ori Shilo, assists the board in fulfilling its responsibilities with respect to the Company's financial and investment strategies and policies, including determining policies and guidelines on these matters and monitoring implementation. It is also authorized to approve certain financial transactions and review risk factors associated with management of the Company finances and the mitigation of such risks, as well as financial controls and reporting and various other finance-related matters.

Nasdaq Stock Market Requirements

Under the Nasdaq Marketplace Rules, we are required to maintain an audit committee consisting of at least three members, all of whom are independent and are financially literate and one of whom has accounting or related financial management expertise.

The independence requirements of Rule 10A-3 of the Securities Exchange Act of 1934, as amended, implement two basic criteria for determining independence:

- audit committee members are barred from accepting directly or indirectly any consulting, advisory or other compensatory fee from the issuer or an affiliate of the issuer, other than in the member's capacity as a member of the board of directors and any board committee, and

- audit committee members may not be an "affiliated person" of the issuer or any subsidiary of the issuer apart from her or his capacity as a member of the board of directors and any board committee.

The Securities and Exchange Commission has defined "affiliate" for non-investment companies as "a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified." The term "control" is intended to be consistent with the other definitions of this term under the Securities Exchange Act of 1934, as amended, as "the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract, or otherwise." A safe harbor has been adopted by the Securities and Exchange Commission, under which a person who is not an executive officer or 10% shareholder of the issuer would be deemed not to have control of the issuer.

In accordance with the Sarbanes-Oxley Act of 2002 and the Nasdaq Marketplace Rules, the audit committee is directly responsible for the appointment, compensation and performance of our independent auditors. In addition, the audit committee is responsible for assisting the board of directors in reviewing our annual financial statements, the adequacy of our internal controls and our compliance with legal and regulatory requirements. The audit committee also oversees our major financial risk exposures and policies for managing such potential risks, discusses with management and our independent auditor significant risks or exposure and assesses the steps management has taken to minimize such risk.

As noted above, the members of our audit committee include Ms. Aliza Rotbard, Mr. Ofer Tsimchi and Mr. Dan Suesskind, with Ms. Rotbard serving as chairman. All members of our audit committee meet the requirements for financial literacy under the Nasdaq Marketplace Rules. Our board of directors has determined that each member of our audit committee is an audit committee financial expert as defined by the Securities and Exchange Commission rules and has the requisite financial experience as defined by the Nasdaq Marketplace Rules. Each of the members of the audit committee is "independent" as such term is defined in Rule 10A-3(b)(1) under the Securities Exchange Act of 1934, as amended.

Corporate Governance Practices

Internal Auditor

Under the Israeli Companies Law, the board of directors must appoint an internal auditor proposed by the audit committee. The role of the internal auditor is, among others, to examine whether our actions comply with the law and orderly business procedure. Under the Israeli Companies Law, the internal auditor may not be an interested party, an office holder, a relative of an interested party, or a relative of an office holder, nor may the internal auditor be our independent accountant or its representative. Ms. Dana Gottesman-Erlich, Partner at Risk Advisory and Internal Auditing Group at BDO Israel, serves as our internal auditor.

Duties of Office Holders and Approval of Specified Related Party Transactions Under Israeli Law

Fiduciary Duties of Office Holders

The Israeli Companies Law imposes a duty of care and a duty of loyalty on all office holders of a company, including directors and executive officers. The duty of care requires an office holder to act with the level of care, according to which a reasonable office holder in the same position would have acted under the same circumstances.
The duty of care includes a duty to use reasonable means to obtain:

- information on the appropriateness of a given action brought for the office holder's approval or performed by him by virtue of his position; and
- all other important information pertaining to the previous actions.

The duty of loyalty requires an office holder to act in good faith and for the benefit of the company, and includes a duty to:

- refrain from any action involving a conflict of interest between the performance of the office holder's duties in the company and his personal affairs;
- refrain from any activity that is competitive with the company's business;
- refrain from usurping any business opportunity of the company to receive a personal gain for the office holder or others; and
- disclose to the company any information or documents relating to a company's affairs which the office holder has received due to his position as an office holder.

Under the Israeli Companies Law, directors' compensation arrangements require audit committee approval, board of directors' approval and shareholder approval.

The Israeli Companies Law requires that an office holder of a company promptly and, in any event, not later than the first board meeting at which the transaction is discussed, disclose any personal interest that he may have and all related material facts or document known to her or him, in connection with any existing or proposed transaction by the company. A personal interest of an office holders includes a personal interest of the office holder's relative, of a company in which the office holder or the office holder's relative is, a shareholder which holds 5% or more of a company's share capital or its voting rights, a director or a general manager, or in which the office holder has the right to appoint at least one director or the general manager. A personal interest also includes a personal interest of a person who votes according to a proxy of another person, even if the other person has no personal interest, and a personal interest of a person who gave a proxy to another person to vote on his behalf – all whether the discretion how to vote lies with the person voting or not. In the case of an extraordinary transaction, the office holder's duty to disclose applies also to a personal interest of the office holder's relative.

Under Israeli law, an extraordinary transaction is a transaction:

- other than in the ordinary course of business;

- other than on market terms; or

- that is likely to have a material impact on the company's profitability, assets or liabilities.

Under the Israeli Companies Law, once an office holder complies with the above disclosure requirement, the board of directors may approve an ordinary transaction between the company and an office holder, or a third party in which an office holder has a personal interest, unless the articles of association provide otherwise. A transaction that is adverse to the company's interest cannot be approved. Subject to certain exceptions, the audit committee and the board of directors must approve the conditions and term of office of an office holder (which is not a director).

If the transaction is an extraordinary transaction, both the audit committee and the board of directors, in that order, must approve the transaction. Under specific circumstances, shareholder approval may also be required. Whoever has a personal interest in a matter, which is considered at a meeting of the board of directors or the audit committee, may not be present at this meeting or vote on this matter. However, if the chairman of the board of directors or the chairman of the audit committee has determined that the presence of such person is required to present a matter to the meeting, such officer holder may be present at the meeting. Notwithstanding the foregoing, if the majority of the directors have a personal interest in a matter, a director who has the personal interest in this matter may be present at this meeting or vote on this matter, but the board of directors decision requires the shareholder approval.

Controlling Shareholder Transactions and Actions

Under the Israeli Companies Law, the disclosure requirements which apply to an office holder also apply to a controlling shareholder of a public company and to a person who would become a controlling shareholder as a result of a private placement. A controlling shareholder includes a person who has the ability to direct the activities of a company, other than if this power derives solely from his/her position on the board of directors or any other position with the company. In addition, for such purposes a controlling shareholder includes a shareholder that holds 25% or more of the voting rights in a public company if no other shareholder owns more than 50% of the voting rights in the company. Extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, including a private placement in which a controlling shareholder has a personal interest; and the terms of engagement of the company, directly or indirectly, with a controlling shareholder or his or her relative (including through a corporation controlled by a controlling shareholder), regarding the company's receipt of services from the controlling shareholder, and if such controlling shareholder is also an office holder of the company or an employee, regarding his or her terms of office and employment, require the approval of the audit committee, the board of directors and the shareholders of the company, in that order. The shareholders approval must include either:

- a majority of the shareholders who have no personal interest in the transaction and who are participating in the voting, in person, by proxy or by written ballot, at the meeting (votes abstaining shall not be taken into account); or

- the total number of shares voted against the proposal by shareholders without a personal interest does not exceed 2% of the aggregate voting rights in the Company.

In addition, any such transaction whose term is more than three years requires the above mentioned approval every three years, unless, with respect to transactions not involving the receipt of services or compensation, the audit committee approves a longer term as reasonable under the circumstances.

However, under regulations, promulgated pursuant to the Israeli Companies Law, certain transactions between a company and its controlling shareholders, or the controlling shareholder's relative, do not require shareholder approval.

For information concerning the direct and indirect personal interests of certain of our office holders and principal shareholders in certain transactions with us, see "Item 7. Major Shareholders – B. Related Party Transactions."

The Israeli Companies Law requires that every shareholder that participates, either by proxy or in person, in a vote regarding a transaction with a controlling shareholder indicate whether or not that shareholder has a personal interest in the vote in question, the failure of which results in the invalidation of that shareholder's vote.

The Israeli Companies Law further provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a holder of 45% of the voting rights of the company, unless there is a holder of more than 45% of the voting rights of the company or would become a holder of 25% of the voting rights unless there is another person holding 25% of the voting rights. This restriction does not apply to:

- an acquisition of shares in a private placement, if the acquisition had been approved in a shareholders meeting under certain circumstances;

- an acquisition of shares from a holder of at least 25% of the voting rights, as a result of which a person would become a holder of at least 25% of the voting rights; and

- an acquisition of shares from a holder of more than 45% of the voting rights, as a result of which the acquirer would become a holder of more than 45% of the voting rights in the company.

Regulations under the Israeli Companies Law provide that the Israeli Companies Law's tender offer rules do not apply to a company whose shares are publicly traded outside of Israel, if, pursuant to the applicable foreign laws or stock exchange rules, there is a restriction on the acquisition of any level of control of the company, or if the acquisition of any level of control of the company requires the purchaser to make a tender offer to the public shareholders. It is the view of the Israeli Securities Authority that U.S. securities laws and stock exchange rules do not impose the required restriction on the acquisition of any level of control of a company, and therefore the Israeli Companies Law's special tender offer rules would apply to a company whose shares are publicly traded in the U.S.

The Israeli Companies Law further provides that a shareholder has a duty to act in good faith towards the company and other shareholders when exercising his rights and duties and shall refrain from oppressing other shareholders, including in connection with the voting at a shareholders' meeting on:

- any amendment to the articles of association;

- an increase in the company's authorized share capital;

- a merger; or

- approval of certain transactions with control persons and other related parties, which require shareholder approval.

In addition, any controlling shareholder, any shareholder who knows that it possesses power to determine the outcome of a shareholder vote and any shareholder who, pursuant to the provisions of a company's articles of association, has the power to appoint or prevent the appointment of an office holder in the company, or has any other power over the company, is under a duty to act with fairness towards the company. Under the Israeli Companies Law, the laws that apply to a breach of a contract will generally also apply to a breach of duty of fairness.

Exemption, Insurance and Indemnification of Directors and Officers

Office Holder Exemption

Under the Israeli Companies Law, a company may not exempt an officer or director from liability with respect to a breach of his duty of loyalty, but may exempt in advance an officer or director from liability to the company, in whole or in part, with respect to a breach of his duty of care, except in connection with a prohibited distribution made by the company, if so provided in its articles of association. Our articles of association provide for this exemption from liability for officers and directors.

Office Holder Insurance

The Israeli Companies Law and our articles of association provide that, subject to the provisions of the Israeli Companies Law, we may obtain insurance for our officers and directors for any liability stemming from any act performed by an officer or director in his capacity as an officer or director, as the case may be with respect to any of the following:

- a breach of such officer's or director's duty of care to us or to another person;

- a breach of such officer's or director's duty of loyalty to us, provided that such officer or director acted in good faith and had reasonable cause to assume that his act would not prejudice our interests;

- a financial liability imposed upon such officer or director in favor of another person;

- financial liability imposed on the officer or director for payment to persons or entities harmed as a result of violations in administrative proceedings as described in Section 52(54)(a)(1)(a) of the Israeli Securities Law (the "Party Harmed by the Breach");

- expenses incurred by such officer or director in connection with an administrative proceeding conducted in his matter, including reasonable litigation expenses, including legal fees; or

- a breach of any duty or any other obligation, to the extent insurance may be permitting by law.

On February 15, 2012, at our general meeting of shareholders, our shareholders authorized us to purchase, from time to time, liability insurance to cover officers and directors, except for officers and directors who are controlling shareholders, together with their relatives, and interested controlling shareholders. Pursuant to this authorization, we may purchase this insurance commencing on the date of the approval of the general shareholders' meeting and ending on the 2015 annual general shareholders' meeting, to be convened in 2016, provided that:

- the policy provides up to $13,000,000 of liability coverage per period and per event; and

- that the annual insurance premium is not more than $15,000 (the "Framework Resolution").

On September 24, 2012, our board of directors approved an amendment of the Framework Resolution for our directors and officers liability insurance policy, pursuant to which we may purchase, from time to time, liability coverage of up to $30 million with a total annual insurance premium of up to $130,000. The liability insurance policy will also cover directors and/or officers who are considered controlling shareholders. The board of directors resolved that the amended insurance framework would be effective from the date the amended framework is approved by our general meeting of shareholders and ending at our annual general meeting for the year 2016 to be convened in 2017.

On November 6, 2012, at our general meeting of shareholders, our shareholders approved the proposed amendment to the Framework Resolution, pursuant to which we may acquire a new insurance policy shortly prior to the time of the listing of our shares on Nasdaq and thereafter. Further to such approval, our audit committee and board of directors will approve, on a yearly basis, that the new insurance policy complies with the terms of the amended Framework Resolution and that they are fair and reasonable under the circumstances, taking into account our exposure and the market conditions.

Subsequent to the amendment to the Framework Resolution, our audit committee and board of directors resolved in November 2012 to purchase directors and officers liability insurance policy, pursuant to which the amount of insurance covered under the policy would be $20 million and the total annual policy premium would be $69,000.

Pursuant to the foregoing approvals, we carry directors and officers liability insurance.

Indemnification of Office Holders

The Israeli Companies Law provides that a company may indemnify an officer or director for payments or expenses associated with acts performed in his capacity as an officer or director of the company, provided the company's articles of association include the following provisions with respect to indemnification:

- a provision authorizing the company to indemnify an officer or director for future events with respect to a monetary liability imposed on him in favor of another person pursuant to a judgment (including a judgment given in a settlement or an arbitrator's award approved by the court), so long as such indemnification is limited to types of events which, in the board of directors' opinion, are foreseeable at the time of granting the indemnity undertaking given the company's actual business, and in such amount or standard as the board of directors deems reasonable under the circumstances. Such undertaking must specify the events that, in the board of directors' opinion, are foreseeable in view of the company's actual business at the time of the undertaking and the amount or the standards that the board of directors deemed reasonable at the time;

- a provision authorizing the company to indemnify an officer or director for future events with respect to reasonable litigation expenses, including counsel fees, incurred by an officer or director in which he is ordered to pay by a court, in proceedings that the company institutes against him or instituted on behalf of the company or by another person, or in a criminal charge from which he was acquitted, or a criminal charge in which he was convicted for a criminal offense that does not require proof of criminal intent;

- a provision authorizing the company to indemnify an officer or director for future events with respect to reasonable litigation fees, including attorney's fees, incurred by an officer or director due to an investigation or proceeding filed against him by an authority that is authorized to conduct such investigation or proceeding, and that resulted without filing an indictment against him and without imposing on him financial obligation in lieu of a criminal proceeding, or that resulted without filing an indictment against him but with imposing on him a financial obligation as an alternative to a criminal proceeding in respect of an offense that does not require the proof of criminal intent or in connection with a monetary sanction;

- a provision authorizing the company to indemnify an officer or director for future events with respect to a Party Harmed by the Breach;

- a provision authorizing the company to indemnify an officer or director for future events with respect to expenses incurred by such officer or director in connection with an administrative proceeding, including reasonable litigation expenses, including legal fees; and

- a provision authorizing the company to retroactively indemnify an officer or director.

Limitations on Insurance, Exemption and Indemnification

The Israeli Companies Law and our articles of association provide that a company may not exempt or indemnify an office holder nor enter into an insurance contract, which would provide coverage for any monetary liability incurred as a result of any of the following:

- a breach by the officer or director of his duty of loyalty, except for insurance and indemnification where the officer or director acted in good faith and had a reasonable basis to believe that the act would not prejudice the company;

- a breach by the officer or director of his duty of care if the breach was done intentionally or recklessly, except if the breach was solely as a result of negligence;

- any act or omission done with the intent to derive an illegal personal benefit; or

- any fine, civil fine, monetary sanctions, or forfeit imposed on the officer or director.

In addition, under the Israeli Companies Law, exemption of, indemnification of, and procurement of insurance coverage for, our officers and directors must be approved by our audit committee and board of directors and, in specified circumstances, by our shareholders.

Letters of Indemnification

We have issued our officers and directors letters of indemnification, pursuant to which we have agreed to indemnify each officer and director in advance for any liability or expense imposed on or incurred by him in connection with acts performed by him in the capacity of an officer or director, subject to the provisions of the letters of indemnification agreement. As approved by our shareholders on July 18, 2013, the amount of the advance indemnity is limited up to $5 million.

As part of the indemnification letters, we exempted our directors and officers, in advance, to the extent permitted under law, from any liability for any damage incurred by them, either directly or indirectly, due to the breach of an officer's or director's duty of care *vis- à-vis* us, within his acts in his capacity as an officer or director. The letter provides that so long as not permitted under law, we do not exempt an officer or director in advance from his liability to us for a breach of the duty of care upon distribution, to the extent applicable to the officer or director, if any. The letter also exempts an officer or director from any liability for any damage incurred by him, either directly or indirectly, due to the breach of the officer or director's duty of care *vis- à-vis* us, by his acts in his capacity as an officer or director prior to the letter of exemption and indemnification becoming effective.

D. Employees

As of February 24, 2014, we had 8 employees and we also received services from 10 consultants who provide services to us in the U.S., Canada and Belgium.

	As of December 31,					
	2011		2012		2013	
	Company Employees	Consultants	Company Employees	Consultants	Company Employees	Consultants
Management and administration	5	1	6	2	8	2
Research and development	1	6	1	6	0	8

While none of our employees is party to a collective bargaining agreement, certain provisions of the collective bargaining agreements between the Histadrut (General Federation of Labor in Israel) and the Coordination Bureau of Economic Organizations (including the Industrialists' Associations) are applicable to our employees by order of the Israel Ministry of Labor. These provisions primarily concern the length of the workday, minimum daily wages for professional workers, pension fund benefits for all employees, insurance for work-related accidents, procedures for dismissing employees, determination of severance pay and other conditions of employment. We generally provide our employees with benefits and working conditions beyond the required minimums.

We have never experienced any employment-related work stoppages and believe our relationship with our employees is good.

E. Share Ownership

The following table sets forth information regarding the beneficial ownership of our outstanding ordinary shares as of February 24, 2014 of each of our directors and executive officers individually and as a group based on information provided to us by our directors and executive officers. The information in this table is based on 87,388,314 ordinary shares outstanding as of such date. The number of ordinary shares beneficially owned by a person includes ordinary shares subject to options or warrants held by that person that were currently exercisable at, or exercisable within 60 days of, February 24, 2014. The ordinary shares issuable under these options and warrants are treated as if they were outstanding for purposes of computing the percentage ownership of the person holding these options and warrants but not the percentage ownership of any other person. None of the holders of the ordinary shares listed in this table have voting rights different from other holders of the ordinary shares.

	Number of Shares Beneficially Held	Percent of Class
Directors		
Eric Swenden (1)	4,893,746	5.58%
Dr. Kenneth Reed (2)	4,201,472	4.79%
Dr. Shmuel Cabilly (3)	4,628,178	5.25%
Dan Suesskind (4)	1,046,150	1.18%
Ofer Tsimchi (5)	150,000	*
Aliza Rotbard (6)	180,000	*
Executive officers		
Dror Ben-Asher (7)	5,496,030	6.10%
Ori Shilo (8)	4,894,383	5.46%
Gilead Raday (9)	897,500	1.02%
Reza Fathi, Ph.D. (10)	953,334	1.08%
Adi Frish (11)	567,500	*
Uri Hananel Aharon (12)	164,750	*
Guy Goldberg (13)	120,833	*
All directors and executive officers as a group (13 persons)	28,193,876	31.81%

* Less than 1.0%

(1) Consists of options to purchase 265,000 ordinary shares exercisable within 60 days of February 24, 2014. The exercise price of these options range between $0.165 and $1.12 per share, and the options expiry date range between 2017 and 2020. See "Item 5. Operating and Financial Review and Prospects – B. Liquidity and Capital Resources" for more information regarding the warrants.

(2) Consists of options to purchase 265,000 ordinary shares exercisable within 60 days of February 24, 2014. The exercise price of these options range between $0.165 and $1.12 per share, and the options expiry date range between 2017 and 2020. See "Item 5. Operating and Financial Review and Prospects – B. Liquidity and Capital Resources" for more information regarding the warrants.

(3) Consists of (i) options to purchase 240,000 ordinary shares exercisable within 60 days of February 24, 2014 and (ii) non-tradable warrants to purchase 494,000 ordinary shares. The exercise price of these options is $0.5 per share, and the options expiry date range between 2017 and 2018. See "Item 5. Operating and Financial Review and Prospects – B. Liquidity and Capital Resources" for more information regarding the warrants.

(4) Consists of (i) options to purchase 885,000 ordinary shares exercisable within 60 days of February 24, 2014 and (ii) non-tradable warrants to purchase 37,050 ordinary shares. The exercise price of these options range between $0.5 and $1.12 per share, and the options expire between 2018 and 2020. See "Item 5. Operating and Financial Review and Prospects – B. Liquidity and Capital Resources" for more information regarding the warrants.

(5) Consists of options to purchase 150,000 ordinary shares exercisable within 60 days of February 24, 2014. The exercise price of these options is $1.05 per share, and the options expire in 2018.

(6) Consists of options to purchase 150,000 ordinary shares exercisable within 60 days of February 24, 2014. The exercise price of these options is $1.05 per share, and the options expire in 2018.

(7) Consists of options to purchase 2,765,000 ordinary shares exercisable within 60 days of February 24, 2014 and. The exercise price of these options range between $0.165 and $1.12 per share, and the options expiry date range between 2017 and 2020. See "Item 5. Operating and Financial Review and Prospects – B. Liquidity and Capital Resources" for more information regarding the warrants.

(8) Consists of options to purchase 2,299,168 Ordinary exercisable within 60 days of February 24, 2014. The exercise price of these options range between $0.165 and $1.12 per share, and the options expiry date range between 2017 and 2020. See "Item 5. Operating and Financial Review and Prospects – B. Liquidity and Capital Resources" for more information regarding the warrants.

(9) Consists of options to purchase 897,500 ordinary shares exercisable within 60 days of February 24, 2014. The exercise price of these options range between $0.165 and $1.12 per share, and the options expiry date range between 2017 and 2020.

(10) Consists of options to purchase 953,334 ordinary shares exercisable within 60 days of February 24, 2014. The exercise price of these options range between $0.165 and $1.12 per share, and the options expiry date range between 2017 and 2020.

(11) Consists of options to purchase 567,500 ordinary shares exercisable within 60 days of February 24, 2014. The exercise price of these options range between $0.165 and $1.12 per share, and the options expiry date range between 2017 and 2020.

(12) Consists of options to purchase 162,500 ordinary shares exercisable within 60 days of February 24, 2014. The exercise price of these options range between $0.69 and $1.12 per share, and the options expiry date range between 2018 and 2020.

(13) Consists of options to purchase 120,833 ordinary shares exercisable within 60 days of February 24, 2014. The exercise price of these options range between $0.7 and $1.12 per share, and the options expiry date range between 2019 and 2020.

Option Plans

2010 Option Plan

In 2010, we adopted the RedHill Biopharma Ltd. 2010 Option Plan. The 2010 Option Plan provides for the granting of options to our directors, officers, employees, consultants and service providers and individuals who are their employees, and to the directors, officers, employees, consultants and service providers of our subsidiaries and affiliates. The 2010 Option Plan provides for options to be issued at the determination of our board of directors in accordance with applicable laws. As of February 24, 2014, there were 14,735,000 ordinary shares issuable upon the exercise of outstanding options under the 2010 Option Plan.

Administration of Our Option Plan

Our option plan is administered by our board of directors, or a compensation committee to be appointed thereby, regarding the granting of options and the terms of option grants, including exercise price, method of payment, vesting schedule, acceleration of vesting and the other matters necessary in the administration of these plans. Options granted under the 2010 Option Plan to eligible Israeli employees, officers and directors are granted under Section 102 of the Israel Income Tax Ordinance pursuant to which the options or the ordinary shares issued upon their exercise must be allocated or issued to a trustee and be held in trust for two years from the date upon which such options were granted in order to benefit from the provisions of Section 102. Under Section 102, any tax payable by an employee from the grant or exercise of the options is deferred until the transfer of the options or ordinary shares by the trustee to the employee or upon the sale of the options or ordinary shares, and gains may qualify to be taxed as capital gains at a rate equal to 25%, subject to compliance with specified conditions. See "Item 10. Additional Information – E. Taxation – Israeli Tax Considerations."

Options granted under 2010 Option Plan as amended generally vest over a period of 4 years and expire seven (7) years after the grant date. The 2010 Option Plan, however, permits options to have a term of up to 10 years. If we terminate a grantee for cause (as such term is defined in the 2010 Option Plan) the right to exercise all the options granted to the grantee, the grantee's vested and unvested options will expire immediately, on the earlier of:

- termination of the engagement; or
- the date of the notice of the termination of the engagement.

Upon termination of employment for any other reason, other than in the event of death, disability, retirement after the age of 60 or for cause, all unvested options will expire and all vested options will generally be exercisable for 90 days following termination, or such other period as determined by the plan administrator, subject to the terms of the 2010 Option Plan and the governing option agreement.

Under our 2010 Option Plan, in the event any person, entity or group that was not an interested party at the time of our initial public offering becoming a controlling shareholder, options that granted by us will be accelerated, so that the grantee will be entitled to exercise all of those options. An "interested party" is defined in the Securities Law and includes, among others:

- a holder of 5% or more of the outstanding shares or voting rights of an entity;
- a person entitled to appoint one or more of the directors or chief executive officer of an entity;

- a director of an entity or its chief executive officer;
- an entity, in which an individual referred to above holds 25% or more of its outstanding shares or voting rights, or is entitled to appoint 25% or more of its directors; or
- a person who initiated the establishment of the entity.

A "controlling shareholder" in this paragraph is a controlling shareholder, as defined in the Israel Securities Law, 1968, or any person, entity or group becoming a holder, as defined in the Israel Securities Law, 1968, of 25% or more of the voting rights in us. This option acceleration clause, however, only applies with respect to the 3,080,000 options granted to our employees and consultants before our initial public offering in Israel and to the 6,210,000 options allocated upon completion of our initial public offering in Israel to our employees and consultants.

Our 2010 Option Plan was amended to provide that all options which we granted or may grant under the plan will be accelerated, so that the grantees will be entitled to exercise all of such options, in the event any person, entity or group that was not an interested party at the time of our initial public offering on the Tel Aviv Stock Exchange becomes a controlling shareholder. A "controlling shareholder" in this paragraph is a controlling shareholder, as defined in the Israel Securities Law, 1968.

Upon termination of employment due to death or disability, or retirement after the age of 60, subject to the board of directors' approval, all the vested options at the time of termination will be exercisable for 24 months, or such other period as determined by the plan administrator, subject to the terms of the 2010 Option Plan and the governing option agreement.

In the event of the sale of all or a substantial part of our assets, or a merger transaction in which we are not the surviving corporation and the surviving corporation does not assume the options granted under the 2010 Option Plan or otherwise grants options to purchase the surviving corporation's shares in exchange for such option, all of the options that were scheduled to vest within 12 months of the date of such transaction shall vest immediately prior the closing of such transaction.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

The following table sets forth certain information regarding the beneficial ownership of our outstanding ordinary shares as of February 24, 2014, by each person or entity known to beneficially own 5.0% or more of our outstanding ordinary shares. The information with respect to beneficial ownership of the ordinary shares is given based on information reported in such shareholder's Schedule 13G, and if no Schedule 13G was filed, based on the information provided to us by the shareholders.

The information in this table is based on 87,388,314 ordinary shares outstanding as of such date. In determining the number of ordinary shares beneficially owned by a person, we include any shares as to which the person has sole or shared voting power or investment power, as well as any ordinary shares subject to options or warrants held by that person that were currently exercisable at, or exercisable within 60 days of February 24, 2014. The ordinary shares issuable under these options and warrants are treated as if they were outstanding for purposes of computing the percentage ownership of the person holding these options and warrants but not the percentage ownership of any other person. None of the holders of the ordinary shares listed in this table have voting rights different from other holders of ordinary shares.

	Number of Shares Beneficially Held	Percent of Outstanding Equity
OrbiMed Israel Partners Limited Partnership (1)	8,842,120(2)	9.83%
Mr. Dror Ben-Asher (3)	5,496,030	6.10%
Mr. Eric Swenden (4)	4,893,746	5.58%
Mr. Ori Shilo (5)	4,894,383	5.46%
Dr. Kenneth Reed (6)	4,201,472	4.79%
Dr. Shmuel Cabilly (7)	4,628,178	5.25%
Migdal Insurance Company (8)	5,025,643	5.66%
Yelin Lapidot (9)	5,025,643	5.66%

(1) OrbiMed Israel GP Ltd. ("OrbiMed Israel") is the general partner of OrbiMed Israel BioFund GP Limited Partnership ("OrbiMed BioFund"), which is the general partner of OrbiMed Israel Partners Limited Partnership, an Israel limited partnership ("OrbiMed Partners"), which holds the ADSs and warrants. OrbiMed Israel, as the general partner of OrbiMed BioFund, and OrbiMed BioFund, as the general partner of OrbiMed Partners, may be deemed to share voting and investment power with respect to the ordinary shares underlying the ADSs and warrants held by OrbiMed Partners. The address of OrbiMed Israel Partners Limited Partners is 89 Medinat HaYehudim St., Herzliya 46766, Israel.

(2) Includes an aggregate of 631,580 ADSs, each representing 10 ordinary shares, and warrants ("Warrants") to purchase 252,632 ADSs with exercise price of $11 and an expiration date of January 7, 2017 purchased by OrbiMed Israel Partners Limited Partnership in the private placement that closed on January 8, 2014. See "Item 5. Operating and Financial Review and Prospects – B. Liquidity and Capital Resources" for more information regarding the warrants. The Warrants to purchase ADSs contain an issuance limitation that prohibits the holder from exercising the Warrants to the extent that after giving effect to such issuance after exercise the holder (together with the holder's affiliates, and any other persons acting as a group together with the holder or any of the holder's affiliates), would beneficially own in excess of 9.9% of the ordinary shares outstanding immediately after giving effect to the issuance of the ADSs issuable upon exercise of the warrants.

(3) Consists of options to purchase 2,765,000 ordinary shares exercisable within 60 days of February 24, 2014. The exercise price of these options range between $0.165 and $1.12 per share, and the options expiry date range between 2017 and 2020. See "Item 5. Operating and Financial Review and Prospects – B. Liquidity and Capital Resources" for more information regarding the warrants.

(4) Consists of (i) options to purchase 265,000 ordinary shares exercisable within 60 days of February 24, 2014. The exercise price of these options range between $0.165 and $1.12 per share, and the options expiry date range between 2017 and 2020. See "Item 5. Operating and Financial Review and Prospects – B. Liquidity and Capital Resources" for more information regarding the warrants.

(5) Consists of options to purchase 2,299,168 ordinary shares exercisable within 60 days of February 24, 2014. The exercise price of these options range between $0.165 and $1.12 per share, and the options expiry date range between 2017 and 2020. See "Item 5. Operating and Financial Review and Prospects – B. Liquidity and Capital Resources" for more information regarding the warrants.

(6) Consists of (i) options to purchase 265,000 ordinary shares exercisable within 60 days of February 24, 2014. The exercise price of these options range between $0.165 and $1.12 per share, and the options expiry date range between 2017 and 2020. See "Item 5. Operating and Financial Review and Prospects – B. Liquidity and Capital Resources" for more information regarding the warrants.

(7) Consists of (i) options to purchase 240,000 ordinary shares exercisable within 60 days of February 24, 2014 and (ii) non-tradable warrants to purchase 494,000 ordinary shares. The exercise price of these options is $0.5 per share, and the options expiry date range between 2017 and 2018. See "Item 10. Additional Information – A. Share Capital" for more information regarding the warrants. See "Item 5. Operating and Financial Review and Prospects – B. Liquidity and Capital Resources" for more information regarding the warrants.

(8) Consists of (i) 3,589,745 ordinary shares and (ii) warrants to purchase 1,435,898 ordinary shares exercisable within 60 days of February 24, 2014 with exercise price of NIS 4.9 ($1.401 based on the exchange rate reported by the Bank of Israel on January 12, 2014), linked to changes in the NIS-US dollar exchange rate and with an expiration date of January 19, 2017. See "Item 5. Operating and Financial Review and Prospects – B. Liquidity and Capital Resources" for more information regarding the warrants. The shares beneficially owned by Migdal Insurance Company are held for members of the public through, among others, provident funds, mutual funds, pension funds and insurance policies, which are managed by subsidiaries of Migdal Insurance Company, according to the following segmentation: 3,286,333 Ordinary Shares are held by profit participating life assurance accounts (including Ordinary Shares issuable upon the exercise of warrants to purchase Ordinary Shares) and 1,739,310 Ordinary Shares are held by provident funds and companies that manage provident funds (including Ordinary Shares issuable upon the exercise of warrants to purchase Ordinary Shares), each of which subsidiaries operates under independent management and makes independent voting and investment decisions.

(9) Consists of (i) 3,589,745 ordinary shares and (ii) warrants to purchase 1,474,270 ordinary shares exercisable within 60 days of February 24, 2014 with exercise price of NIS 4.9 ($1.401 based on the exchange rate reported by the Bank of Israel on January 12, 2014), linked to changes in the NIS-US dollar exchange rate and with expiration date of January 19, 2017. See "Item 5. Operating and Financial Review and Prospects – B. Liquidity and Capital Resources" for more information regarding the warrants. The shares are beneficially owned by provident funds managed by Yelin Lapidot Provident Funds Management Ltd. and mutual funds managed by Yelin Lapidot Mutual Funds Management Ltd. (the "Subsidiaries"), each a wholly-owned subsidiary of Yelin Lapidot Holdings Management Ltd. ("Yelin Lapidot Holdings"). . Mr. Dov Yelin and Mr. Yair Lapidot each owns 24.38% of the share capital and 25% of the voting rights of Yelin Lapidot Holdings and are responsible for the day-to-day management of Yelin Lapidot Holdings. The Subsidiaries operate under independent management and make their own independent voting and investment decisions. Any economic interest or beneficial ownership in any of the shares is held for the benefit of the members of the provident funds or mutual funds, as the case may be.

Based on information obtained from the Tel Aviv Stock Exchange, as of February 17, 2014, there were approximately 13 shareholders of record with a United States address which held approximately 23,611,109 ordinary shares directly or represented by ADSs, representing in the aggregate approximately 27% of our then outstanding share capital.

At the time of our incorporation in 2009, ProSeed Capital Holdings CVA held approximately 46% of our outstanding shares. Following the issuance by us of additional shares, including in connection with our initial public offering in Israel, and the distribution by ProSeed Capital Holdings CVA in November 2011 of substantially of all of its shares in us to its shareholders, it currently holds less than one percent of our shares.

At the time of our incorporation in 2009, Benjamin Van Oudenhove, the chief executive officer and chairman of ProSeed Capital Holdings CVA, held approximately 10.5% of our outstanding shares, in addition to his indirect holdings through ProSeed Capital Holdings CVA. Following the issuances of additional shares, including in connection with our initial public offering in Israel, he currently beneficially holds less than 5% of our shares.

B. Related Party Transactions

Agreement with R.E. Investments

On August 7, 2010, we entered into an agreement with R.E. Investments, an entity owned by Benjamin Van Oudenhove, pursuant to which R.E. Investments provides us with strategic consulting services in the fields of finance, mergers and acquisitions and business development, with an emphasis on Europe.

Pursuant to this agreement, R.E. Investments is entitled to success fees of 3%, plus value added tax, if necessary, of the value of any transaction resulting from its introductions. R.E. Investments is entitled to such payment for a period of 12 months from the date of termination of the agreement. Pursuant to this agreement, we paid R.E. Investments $4,000 and $56,000 in 2011 and 2010, respectively.

On November 6, 2012, we entered into an amendment to this agreement pursuant to which the success fees were increased to 5%, plus value added tax, if applicable, of the value of any transaction resulting from the introductions made by R.E. Investments from November 6, 2012 through December 31, 2012 which result in investments in the Company

In the agreement, R.E. Investments agreed that so long as it serves as our consultant, and for a period of 2 years from the date of termination of the agreement, it will not interfere in our relationship with customers, suppliers, employees, consultants, investment partners, investors and creditors during this period.

Pursuant to the agreement, R.E. Investments was granted options to acquire 400,000 of our ordinary shares at an exercise price of $0.55 per share and Mr. Van Oudenhove was granted options to acquire 100,000 of our ordinary shares at an exercise price of $0.55 per share (all which numbers reflect adjustments made following the distribution of bonus shares to our shareholders at the time of our initial public offering on the Tel Aviv Stock Exchange). All of these unexercised options granted to R. E. Investments and Mr. Van Oudenhove will lapse upon the earlier of our merger or acquisition or on September 1, 2012. On August 29, 2012 all these options were exercised into 500,000 ordinary shares.

February 2011 Initial Public Offering

In February 2011, we completed our initial public offering in Israel, under which Dr. Cabilly invested $975,000, Mr. Swenden invested $535,000, Mr. Shilo invested $29,000 and Dr. Reed invested $24,000 out of a total amount of approximately $14 million. See "Item 5. Operating and Financial Review and Prospects – B. Liquidity and Capital Resources".

Please see “Item 6. Directors, Senior Management and Employees – B. Compensation – Executives and Director Compensation” for a description of our employment agreements with Dror Ben-Asher and Ori Shilo.

November 2012 Private Placement

On January 10, 2013, we issued in a private placement 6,481,280 ordinary shares at a price per share of NIS 4.00 and non-tradable warrants to purchase up to 3,240,640 ordinary shares. As part of this private placement, Dr. Cabilly invested $1 million and Mr. Suesskind invested $75,000 out of a total of $6.56 million. For more information on the private placement, please see "Item 5. Operating and Financial Review and Prospects – B. Liquidity and Capital Resources".

Acquisition of Royalties Rights

From June 2010 to August 2010, we entered into loan agreements with a number of investors, pursuant to which we received gross proceeds of approximately $3.5 million. The loans we received under these loan agreements accrued interest at an annual rate of 8%, which was payable upon the conversion of the loans.

Under the terms of the loan agreements, we agreed to pay the investors 5% of the proceeds of (i) net sales by us or our sublicensees or distributors; and (ii) down payments and milestone payments from sublicenses or distributor transactions paid to us in connection with the first two new products purchased by us subsequent to the closing of this loan financing. Such royalties were payable (i) with regard to net sales over a period of five years from the date of the first commercial sale of either of these products; and (ii) with regard to down payments and milestone payments over a period of five years commencing from August 11, 2010. Following approvals from our board of directors and shareholders, it was determined that the investors would be entitled to royalties with respect to RHB-103 for the treatment of acute migraine headaches and RHB-104 for the treatment of Crohn's disease.

On August 31, 2010, each of these loan agreements was replaced in their entirety by a new mandatory convertible loan agreement. However, the obligation to pay the investors the royalty payments described above remained in full force and effect.

On January 10, 2013, following approval of our shareholders, we issued an aggregate of 2,317,186 ordinary shares in exchange for the acquisition and termination of the royalty rights granted to investors pursuant to the August 2010 mandatory convertible loan agreement. In connection with such transaction, each investor received a number of shares on a pro-rata basis in accordance with their respective royalty rights. As part of the transaction, the following three directors who were investors in the August 2010 mandatory convertible loan agreement were issued ordinary shares: Dr. Kenneth Reed - 233,688 ordinary shares; Mr. Eric Swenden - 433,993 ordinary shares; and Dr. Shmuel Cabilly - 333,841ordinary shares, and Mr. Amram Hayut, a brother-in-law of Mr. Shilo, received 56,753 ordinary shares, out of a total amount of approximately $3.5 million.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Financial Statements and Other Financial Information

The financial statements required by this item are found at the end of this Annual Report, beginning on page F-1.

Legal Proceedings

From time to time, we may become party to legal proceedings and claims in the ordinary course of business. We are not currently a party to any significant legal proceedings.

Dividend Policy

We have never declared or paid cash dividends to our shareholders. Currently we do not intend to pay cash dividends. We currently intend to reinvest any future earnings in developing and expanding our business. Any future determination relating to our dividend policy will be at the discretion of our board of directors and will depend on a number of factors, including future earnings, our financial condition, operating results, contractual restrictions, capital requirements, business prospects, applicable Israeli law and other factors our board of directors may deem relevant.

B. Significant Changes

Except as otherwise disclosed in this Annual Report, no significant change has occurred since December 31, 2013.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

Our ordinary shares have been trading on the Tel Aviv Stock Exchange under the symbol "RDHL" since February 2011.

Ordinary Shares

The following table sets forth, for the periods indicated, the reported high and low closing sales prices of our ordinary shares on the Tel Aviv Stock Exchange in NIS and U.S. dollars. U.S. dollar per ordinary share amounts are calculated using the U.S. dollar representative rate of exchange on the date to which the high or low market price is applicable, as reported by the Bank of Israel.

	NIS		$U.S.	
	Price per Ordinary Share		Price per Ordinary Share	
	High	Low	High	Low
Annual				
2014 (through February 23, 2014)	4.73	3.96	1.36	1.14
2013	4.29	3.23	1.15	0.91
2012	4.19	1.71	1.08	0.45
2011(beginning on February 3, 2011)	3.80	1.82	1.05	0.49
Quarter				
2014				
First quarter (through February 23)	4.73	3.96	1.36	1.14
2013				
Fourth quarter	3.87	3.23	1.11	0.92
Third quarter	3.79	3.35	1.04	0.91
Second quarter	3.99	3.5	1.10	0.96
First quarter	4.29	3.64	1.15	0.99
2012				
Fourth quarter	4.19	3.04	1.08	0.78
Third quarter	2.99	2.19	0.76	0.55
Second quarter	2.95	1.91	0.78	0.51
First quarter	2.52	1.71	0.66	0.45
Most Recent Six Months				
February 2014 (through February 23)	4.57	4.20	1.30	1.20
January 2014	4.73	3.96	1.36	1.14
December 2013	3.87	3.23	1.11	0.92
November 2013	3.77	3.41	1.07	0.96
October 2013	3.71	3.49	1.05	0.99
September 2013	3.69	3.42	1.03	0.97
August 2013	3.69	3.52	1.03	0.96

On February 23, 2014, the last reported sales price of our ordinary shares on the TASE was NIS 4.45 per share, or $1.27 per share (based on the exchange rate reported by the Bank of Israel for such date). On February 23, 2014 the exchange rate of the NIS to the U.S. dollar was $1.00 = NIS 3.51, as reported by the Bank of Israel.

ADSs

Our ADSs have been trading on the Nasdaq Capital Market under the symbol “RDHL” since December 26, 2012.

The following table sets forth, for the periods indicated, the reported high and low closing sale prices of our ADSs on the Nasdaq Capital Market in U.S. dollars.

	$U.S. Price per ADS	
	High	Low
2014	13.76	12.38
2013	13.60	8.31
Quarter		
First quarter 2014 (through February 23)	13.76	12.38
Fourth quarter 2013	11.80	9.51
Third quarter 2013	10.73	8.31
Second quarter 2013	11.94	10.00
First quarter 2013	13.60	8.46
Most Recent Six Months		
February 2014 (through February 23)	13.48	12.70
January 2014	13.76	12.38
December 2013	11.80	9.75
November 2013	10.97	9.51
October 2013	11.15	9.80
September 2013	10.73	9.73
August 2013	10.59	9.85

On February 23, 2014, the last reported sales price of our ADSs on the Nasdaq Capital Market was $12.9 per ADS.

B. Plan of Distribution

Not applicable.

C. Markets

Our ordinary shares are listed and traded on the Tel Aviv Stock Exchange, and our ADSs, each representing ten ordinary share and evidenced by an American depositary receipt, or ADR, are traded on the Nasdaq Capital Market under the symbol "RDHL." The ADRs were issued pursuant to a Depositary Agreement entered into with The Bank of New York.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable

B. Memorandum and Articles of Association

Securities Registers

Our transfer agent and register is Bank of New York Mellon and its address is 101 Barclay Street, New York, NY.

Objects and Purposes

According to Section 4 of our articles of association, we shall engage in any legal business. Our number with the Israeli Registrar of Companies is 514304005.

Private Placements

Under the Israeli Companies Law, if (i) as a result of a private placement a person would become a controlling shareholder or (ii) a private placement will entitle investors to receive 20% or more of the voting rights of a company as calculated before the private placement, and all or part of the private placement consideration is not in cash or in public traded securities or is not in market terms and if as a result of the private placement the holdings of a substantial shareholder shall increase or as a result of it a person shall become a substantial shareholder, then in either case, the allotment must be approved by the board of directors and by the shareholders of the company. A "substantial shareholder" is defined as a shareholder who holds five percent or more of the company's outstanding share capital, assuming the exercise of all of the securities convertible into shares held by that person. In order for the private placement to be on "market terms" the board of directors has to determine, on the base of detailed explanation, that the private placement is on market terms, unless proven otherwise.

Board of Directors

Under our articles of association, resolutions by the board of directors shall be decided by a majority of votes of the directors present, or participating, in the case of voting by media, and voting, each director having one vote.

In addition, the Israeli Companies Law requires that certain transactions, actions and arrangements be approved as provided for in a company's articles of association and in certain circumstances by the compensation or audit committee and by the board of directors itself. Those transactions that require such approval pursuant to a company's articles of association must be approved by its board of directors. In certain circumstances, compensation or audit committee and shareholder approval is also required. See "Item 6. Directors, Senior Management and Employees – C. Board Practices."

The Israeli Companies Law requires that a member of the board of directors or senior management of the company promptly and, in any event, not later than the first board meeting at which the transaction is discussed, disclose any personal interest that he or she may have, either directly or by way of any corporation in which he or she is, directly or indirectly, a 5% or greater shareholder, director or general manager or in which he or she has the right to appoint at least one director or the general manager, as well as all related material information known to him or her, in connection with any existing or proposed transaction by the company. In addition, if the transaction is an extraordinary transaction, (that is, a transaction other than in the ordinary course of business, otherwise than on market terms, or is likely to have a material impact on the company's profitability, assets or liabilities), the member of the board of directors or senior management must also disclose any personal interest held by his or her spouse, siblings, parents, grandparents, descendants, spouse's descendants, siblings and parents, and the spouses of any of the foregoing.

Once the member of the board of directors or senior management complies with the above disclosure requirement, a company may approve the transaction in accordance with the provisions of its articles of association. Under the provisions of the Israeli Companies Law, whoever has a personal interest in a matter, which is considered at a meeting of the board of directors or the audit committee, may not be present at this meeting or vote on this matter, unless it is not an extraordinary transaction as defined in the Israeli Companies Law. However, if the chairman of the board of directors or the chairman of the audit committee has determined that the presence of an office holder with a personal interest is required for the presentation of a matter, such officer holder may be present at the meeting. Notwithstanding the foregoing, if the majority of the directors have a personal interest in a matter, they shall be allowed to participate and vote on this matter, but an approval of the transaction by the shareholders in the general meeting shall be required.

Our articles of association provide that, subject to the Israeli Companies Law, all actions executed in good faith by the board of directors or by a committee thereof or by any person acting as a director or a member of a committee of the board of directors, will be deemed to be valid even if, after their execution, it is discovered that there was a flaw in the appointment of these persons or that any one of these persons was disqualified from serving at his or her office.

Our articles of association provide that, subject to the provisions of the Israeli Companies Law, the board of directors may appoint board of directors' committees. The committees of the board of directors shall report to the board of directors their resolutions or recommendations on a regular basis, as shall be prescribed by the board of directors. The board of directors may cancel the resolution of a committee that has been appointed by it; however, such cancellation shall not affect the validity of any resolution of a committee, pursuant to which we acted, vis-à-vis another person, who was not aware of the cancellation thereof. Decisions or recommendations of the committee of the board which require the approval of the board of directors will be brought to the directors' attention a reasonable time prior to the discussion at the board of directors.

According to the Israeli Companies Law, a contract of a company with its directors, regarding their conditions of service, including the grant to them of exemption from liability from certain actions, insurance, and indemnification as well as the company's contract with its directors on conditions of their employment, in other capacities, require the approval of the compensation committee, the board of directors, and the shareholders.

Description of Securities

Ordinary Shares

The following is a description of our ordinary shares. Our authorized share capital is 200,000,000 ordinary shares, par value NIS 0.01 per share.

The ordinary shares do not have preemptive rights, preferred rights or any other right to purchase our securities. Neither our articles of association nor the laws of the State of Israel restrict the ownership or voting of ordinary shares by non-residents of Israel, except for subjects of countries which are enemies of Israel.

Transfer of Shares. Fully paid ordinary shares are issued in registered form and may be freely transferred pursuant to our articles of association unless that transfer is restricted or prohibited by another instrument.

Notices. Under the Israeli Companies Law and our articles of association, we are required to publish notices in two Hebrew-language daily newspapers at least 14 calendar days' prior notice of a shareholders' meeting. However, under regulations promulgated under the Israeli Companies Law, we are required to publish notice in two daily newspapers at least 35 calendar days prior any shareholders' meeting in which the agenda includes matters which may be voted on by voting instruments. Regulations under the Israeli Companies Law exempt companies whose shares are listed for trading both on a stock exchange in and outside of Israel, from some provisions of the Israeli Companies Law. An amendment to these regulations exempts us from the requirements of the Israeli proxy regulation, under certain circumstances.

According to the Israeli Companies Law and the regulations promulgated thereunder, for purposes of determining the shareholders entitled to notice and to vote at such meeting, the board of directors may fix the record date not more than 40 nor less than four calendar days prior to the date of the meeting, provided that an announcement regarding the general meeting shall be given prior to the record date.

Election of Directors. The number of directors on the board of directors shall be no less than five but no more than seven, not including at least two external directors. The general meeting is entitled, at any time and from time to time, in a resolution approved by a majority of 75% or more of the votes cast by those shareholders present and voting at the meeting in person, by proxy or by a voting instrument, not taking into consideration abstaining votes, to change the minimum and/or maximum number of directors as stated above. For more information, please see "Item 6. Directors, Senior Management and Employees – C. Board Practices – Appointment of Directors and Terms of Office."

Dividend and Liquidation Rights. Our profits, in respect of which a resolution was passed to distribute them as dividend or bonus shares, shall be paid pro rata to the amount paid or credited as paid on account of the nominal value of shares held by the shareholders. In the event of our liquidation, the liquidator may, with the general meeting's approval, distribute parts of our property in specie among the shareholders and he may, with similar approval, deposit any part of our property with trustees in favor of the shareholders as the liquidator, with the approval mentioned above deems fit.

Voting, Shareholders' Meetings and Resolutions. Holders of ordinary shares are entitled to one vote for each ordinary share held on all matters submitted to a vote of shareholders. The quorum required for an ordinary meeting of shareholders consists of at least two shareholders present, in person or by proxy, or who has sent us a voting instrument indicating the way in which he is voting, who hold or represent, in the aggregate, at least 25% of the voting rights of our outstanding share capital. A meeting adjourned for lack of a quorum is adjourned to the same day in the following week at the same time and place or any time and place as prescribed by the board of directors in notice to the shareholders. At the reconvened meeting one shareholder at least, present in person or by proxy constitutes a quorum except where such meeting was called at the demand of shareholders. With the agreement of a meeting at which a quorum is present, the chairman may, and on the demand of the meeting he must, adjourn the meeting from time to time and from place to place, as the meeting resolves. Annual general meetings of shareholders are held once every year within a period of not more than 15 months after the last preceding annual general shareholders' meeting. The board of directors may call special general meetings of shareholders. The Israeli Companies Law provides that a special general meeting of shareholders may be called by the board of directors or by a request of two directors or 25% of the directors in office, whichever is the lower, or by shareholders holding at least 5% of our issued share capital and at least 1% of the voting rights, or of shareholders holding at least 5% of our voting rights.

An ordinary resolution requires approval by the holders of a majority of the voting rights present, in person or by proxy, at the meeting and voting on the resolution.

Allotment of Shares. Our board of directors has the power to allot or to issue shares to any person, with restrictions and condition as it deems fit.

Private Placements

For information on private placements, see "Item 10. Additional Information - B. Memorandum and Articles - Private Placements."

Acquisitions under Israeli Law

Full Tender Offer

A person wishing to acquire shares of an Israeli public company and who would as a result hold over 90% of the target company's issued and outstanding share capital is required by the Israeli Companies Law to make a tender offer to all of the company's shareholders for the purchase of all of the issued and outstanding shares of the company.

A person wishing to acquire shares of an Israeli public company and who would as a result hold over 90% of the issued and outstanding share capital of a certain class of shares is required to make a tender offer to all of the shareholders who hold shares of the same class for the purchase of all of the issued and outstanding shares of the same class.

If the shareholders who do not respond to or accept the offer hold less than 5% of the issued and outstanding share capital of the company or of the applicable class of the shares, and more than half of the shareholders who do not have a personal interest in the offer accept the offer, all of the shares that the acquirer offered to purchase will be transferred to the acquirer by operation of law. However, a tender offer will be accepted if the shareholders who do not accept it hold less than 2% of the issued and outstanding share capital of the company or of the applicable class of the shares.

Upon a successful completion of such a full tender offer, any shareholder that was an offeree in such tender offer, whether such shareholder accepted the tender offer or not, may, within six months from the date of acceptance of the tender offer, petition the Israeli court to determine whether the tender offer was for less than fair value and that the fair value should be paid as determined by the court. However, under certain conditions, the offeror may determine in the terms of the tender offer that an offeree who accepted the offer will not be entitled to petition the Israeli court as described above.

If the shareholders who did not respond or accept the tender offer hold at least 5% of the issued and outstanding share capital of the company or of the applicable class, the acquirer may not acquire shares of the company that will increase its holdings to more than 90% of the company's issued and outstanding share capital or of the applicable class from shareholders who accepted the tender offer.

The description above regarding a full tender offer shall also apply, with necessary changes, when a full tender offer is accepted and the offeror has also offered to acquire all of the company's securities.

Special tender offer

The Israeli Companies Law provides that an acquisition of shares of an Israeli public company must be made by means of a special tender offer if as a result of the acquisition the purchaser would become a holder of at least 25% of the voting rights in the company. This rule does not apply if there is already another holder of at least 25% of the voting rights in the company.

Similarly, the Israeli Companies Law provides that an acquisition of shares in a public company must be made by means of a special tender offer if as a result of the acquisition the purchaser would become a holder of more than 45% of the voting rights in the company, if there is no other shareholder of the company who holds more than 45% of the voting rights in the company.

These requirements do not apply if the acquisition (i) occurs in the context of a private offering, on the condition that the shareholders meeting approved the acquisition as a private offering whose purpose is to give the acquirer at least 25% of the voting rights in the company if there is no person who holds at least 25% of the voting rights in the company, or as a private offering whose purpose is to give the acquirer 45% of the voting rights in the company, if there is no person who holds 45% of the voting rights in the company; (ii) was from a shareholder holding at least 25% of the voting rights in the company and resulted in the acquirer becoming a holder of at least 25% of the voting rights in the company; or (iii) was from a holder of more than 45% of the voting rights in the company and resulted in the acquirer becoming a holder of more than 45% of the voting rights in the company.

The special tender offer may be consummated only if (i) at least 5% of the voting power attached to the company's outstanding shares will be acquired by the offeror and (ii) the special tender offer is accepted by a majority of the votes of those offerees who gave notice of their position in respect of the offer; in counting the votes of offerees, the votes of a holder in control of the offeror, a person who has personal interest in acceptance of the special tender offer, a holder of at least 25% of the voting rights in the company, or any person acting on their or on the offeror's behalf, including their relatives or companies under their control, are not taken into account.

In the event that a special tender offer is made, a company's board of directors is required to express its opinion on the advisability of the offer or shall abstain from expressing any opinion if it is unable to do so, provided that it gives the reasons for its abstention.

An office holder in a target company who, in his or her capacity as an office holder, performs an action the purpose of which is to cause the failure of an existing or foreseeable special tender offer or is to impair the chances of its acceptance, is liable to the potential purchaser and shareholders for damages resulting from his acts, unless such office holder acted in good faith and had reasonable grounds to believe he or she was acting for the benefit of the company. However, office holders of the target company may negotiate with the potential purchaser in order to improve the terms of the special tender offer, and may further negotiate with third parties in order to obtain a competing offer.

If a special tender offer was accepted by a majority of the shareholders who announced their stand on such offer, then shareholders who did not respond to the special offer or had objected to the special tender offer may accept the offer within four days of the last day set for the acceptance of the offer. In the event that a special tender offer is accepted, then the purchaser or any person or entity controlling it and any corporation controlled by them shall refrain from making a subsequent tender offer for the purchase of shares of the target company and may not execute a merger with the target company for a period of one year from the date of the offer, unless the purchaser or such person or entity undertook to effect such an offer or merger in the initial special tender offer.

Merger

The Israeli Companies Law permits merger transactions if approved by each party's board of directors and, unless certain requirements described under the Israeli Companies Law are met, a majority of each party's shareholders, by a majority of each party's shares that are voted on the proposed merger at a shareholders' meeting.

The board of directors of a merging company is required pursuant to the Israeli Companies Law to discuss and determine whether in its opinion there exists a reasonable concern that, as a result of a proposed merger, the surviving company will not be able to satisfy its obligations towards its creditors, taking into account the financial condition of the merging companies. If the board of directors has determined that such a concern exists, it may not approve a proposed merger. Following the approval of the board of directors of each of the merging companies, the boards of directors must jointly prepare a merger proposal for submission to the Israeli Registrar of Companies.

For purposes of the shareholder vote, unless a court rules otherwise, the merger will not be deemed approved if a majority of the shares voting at the shareholders meeting (excluding abstentions) that are held by parties other than the other party to the merger, any person who holds 25% or more of the means of control (See "Management – Audit Committee – Approval of Transactions with Related Parties" for a definition of means of control) of the other party to the merger or any one on their behalf including their relatives (See "Management – External Directors – Qualifications of External Directors" for a definition of relatives) or corporations controlled by any of them, vote against the merger.

In addition, if the non-surviving entity of the merger has more than one class of shares, the merger must be approved by each class of shareholders.

If the transaction would have been approved but for the separate approval of each class of shares or the exclusion of the votes of certain shareholders as provided above, a court may still rule that the company has approved the merger upon the request of holders of at least 25% of the voting rights of a company, if the court holds that the merger is fair and reasonable, taking into account the appraisal of the merging companies' value and the consideration offered to the shareholders.

Under the Israeli Companies Law, each merging company must send a copy of the proposed merger plan to its secured creditors. Unsecured creditors are entitled to receive notice of the merger, as provided by the regulations promulgated under the Israeli Companies Law. Upon the request of a creditor of either party to the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that, as a result of the merger, the surviving company will be unable to satisfy the obligations of the target company. The court may also give instructions in order to secure the rights of creditors.

In addition, a merger may not be completed unless at least 50 days have passed from the date that a proposal for approval of the merger was filed with the Israeli Registrar of Companies and 30 days from the date that shareholder approval of both merging companies was obtained.

Anti-takeover Measures

The Israeli Companies Law allows us to create and issue shares having rights different from those attached to our ordinary shares, including shares providing certain preferred or additional rights to voting, distributions or other matters and shares having preemptive rights. We do not have any authorized or issued shares other than ordinary shares. In the future, if we do create and issue a class of shares other than ordinary shares, such class of shares, depending on the specific rights that may be attached to them, may delay or prevent a takeover or otherwise prevent our shareholders from realizing a potential premium over the market value of their ordinary shares. The authorization of a new class of shares will require an amendment to our articles of association which requires the prior approval of a majority of our shares represented and voting at a general meeting. Shareholders voting at such a meeting will be subject to the restrictions under the Israeli Companies Law described in "— Voting."

C. **Material Contracts**

Securities Purchase Agreements with OrbiMed and Broadfin

On December 30 and December 31, 2013, we entered into Securities Purchase Agreements with OrbiMed Israel Partners Limited Partnership ("OrbiMed") and Broadfin Healthcare Master Fund, LTD. ("Broadfin") for the sale of a total of 894,740 units, each consisting of one ADS and a three-year warrant to purchase 0.4 of an ADS, at a purchase price of $9.50 per unit, for an aggregate gross amount of $8.5 million. The warrants are exercisable for 357,896 ADSs in the aggregate (each representing 10 ordinary shares) at an exercise price of $11 per ADS. The parties closed the transaction on January 8, 2014.

The Warrants are immediately exercisable, have a three year term expiring on January 6, 2017 and may be exercised either for cash or on a cashless basis. The exercise price of the Warrant and the number of shares issuable upon exercise of the Warrant are subject to adjustments for stock dividends, stock splits, reverse splits or similar events, for dividends or other distributions to Company shareholders of Company assets (or rights to acquire assets), and for grants to Company shareholders of convertible securities or rights to purchase securities or property. Upon the occurrence of a transaction involving a change in control of the Company in which the consideration is all cash, the Warrant, if not previously exercised, will be cancelled and the holder would receive the cash it would have received had it exercised the Warrant immediately prior to the transaction. For all other changes in control transactions, the successor entity must assume the entire obligation under the Warrant and the successor entity must be a public company traded on a US exchange.

Under the agreements, until we have raised an aggregate of $28 million ($25.5 million in the agreement with Broadfin, which was for an investment of $2.5 million and signed a day after the agreement with OrbiMed) from the sale and issuance of securities, including ordinary shares, any other of our capital stock, ADSs, or any evidences of indebtedness or other securities representing or directly or indirectly convertible into or exchangeable for our capital stock (whether issued alone or together as "units") (the "Additional Securities"), if we issue Additional Securities at a price per Additional Security of less than $9.50 (such lower price, the "Subsequent Offering Price"), upon each such issuance we will issue to the investors a number of additional ADSs as necessary to reduce the effective price per Unit to the Subsequent Offering Price. If ordinary shares and/or ADSs are offered with any other rights, the "Subsequent Offering Price" will be calculated for each "unit" in such offering, consisting of one ordinary share (or ADS) plus the number of other rights per share in such offering. An adjustment will also apply to the issuance of convertible securities or warrants at a conversion or exercise price per share of less than $9.50 (adjusted for Ordinary Share-ADR ratio). "Additional Securities" excludes securities issued under our stock option plan, ordinary shares issued upon the exercise of currently outstanding options or warrants, ordinary shares issued for acquisition of any entity or other reorganization or joint venture, and securities issued (i) in connection with the acquisition of, or licensing arrangements for, pharmaceutical products, (ii) to suppliers or third party service providers in connection with the provision of goods or services or (iii) in connection with sponsored research, collaboration, technology license, development, OEM, marketing or other similar agreements or strategic partnerships, in each case if approved by the board and not in connection with a capital raising transaction.

We agreed to file with the Securities and Exchange Commission a registration statement covering the ADS to be issued to the investors as well as the ADS issuable upon exercise of the Warrant. The agreement provides for liquidated damages if the Company doesn't meet the deadlines for filing the registration statement and causing the registration statement to be declared effective or if the registration statement does not remain in effect for the period of time required under the agreement. We filed the registration statement with the Securities and Exchange Commission, and it was declared effective on February 4, 2014.

Share Purchase Agreements with Israeli Institutional and other Investors

On January 14, 2014, we entered into Share Purchase Agreements with Israeli institutional investors Migdal Insurance Company, Yelin Lapidot, and Excellence Nessuah, as well as Sphera Global Healthcare Master Fund and two private Israeli investment firms for the sale of a total of 10,458,740 ordinary shares at a purchase price of NIS 3.9 per share and three-year warrants to purchase 4,183,496 ordinary shares in the aggregate at an exercise price of NIS 4.9 per ordinary share, linked to changes in the NIS-US dollar exchange rate, for an aggregate gross amount of $11.7 million (based on the representative U.S. dollar–NIS rate of exchange of 3.49 on January 22, 2014). The parties closed the transaction on January 21, 2014.

We undertook, for a period of six months from the execution of the Share Purchase Agreements, not to issue additional ordinary shares to investors unless the effective price per ordinary share in the future issuance is equal to or greater than NIS 3.455 (approximately $0.98 based on the representative U.S. dollar – NIS rate of exchange of 3.51 on February 23, 2014) per share. For purposes of the agreements, "effective price" refers to the price per share at which shares will be issued by us, and in the case of the issuance of shares together with warrants for no additional consideration, the price per share will be reduced by the value of the warrant calculated in accordance with the Black & Scholes model. The limitation described in this paragraph will apply to issuance of securities to new investors only, whether in a private or public offering, but will not apply to issuance of shares to other investors in the private placement, issuances of shares pursuant to a share option plan for advisors, officers, directors and employees of ours, issuances of shares upon exercise of warrants outstanding on the date of the share purchase agreements, and similar issuances. Following completion of such six month period, we will be permitted to raise additional financing without any limitation.

The Warrants are immediately exercisable and expire on January 19, 2017. The exercise price of the Warrant and/or the number of shares issuable upon exercise of the Warrant are subject to adjustments for stock splits, reverse splits or similar events, for cash dividends or distribution of bonus shares to our shareholders, and for grants to our shareholders of rights to acquire securities of ours of any kind.

For a description of other material agreements, please see also "Information on the Company – B. Business Overview – Acquisition and License Agreements" and "Information on the Company – B. Business Overview – Manufacturing Agreements - Manufacturing Agreement Related to RHB-104."

D. **Exchange Controls**

Israeli law and regulations do not impose any material foreign exchange restrictions on non-Israeli holders of our ordinary shares. In May 1998, a new "general permit" was issued under the Israeli Currency Control Law, 1978, which removed most of the restrictions that previously existed under the law and enabled Israeli citizens to freely invest outside of Israel and freely convert Israeli currency into non-Israeli currencies. Dividends, if any, paid to holders of our ordinary shares, and any amounts payable upon our dissolution, liquidation or winding up, as well as the proceeds of any sale in Israel of our ordinary shares to an Israeli resident, may be paid in non-Israeli currency or, if paid in Israeli currency, may be converted into U.S. dollars at the rate of exchange prevailing at the time of conversion.

E. Taxation

Israeli Tax Considerations

General

The following is a summary of the material tax consequences under Israeli law concerning the purchase, ownership and disposition of our ordinary shares or American Depositary Shares (the "Shares").

This discussion does not purport to constitute a complete analysis of all potential tax consequences applicable to investors upon purchasing, owning or disposing of our Shares. In particular, this discussion does not take into account the specific circumstances of any particular investor (such as tax-exempt entities, financial institutions, certain financial companies, broker-dealers, investors that own, directly or indirectly, 10% or more of our outstanding voting rights, or foreign companies, Israeli residents holding 25% or more of their shares or having the right to 25% or more of their income or profit, all of whom are subject to special tax regimes not covered under this discussion). To the extent that issues discussed herein are based on legislation which has yet to be subject to judicial or administrative interpretation, there can be no assurance that the views expressed herein will accord with any such interpretation in the future.

Potential investors are urged to consult their own tax advisors as to the Israeli or other tax consequences of the purchase, ownership and disposition of the Shares, including, in particular, the effect of any foreign, state or local taxes.

General Corporate Tax Structure in Israel

The Israeli corporate tax rate applicable to Israeli resident companies in 2013 is 25%. As of January 1, 2014 and thereafter, the Israeli corporate tax rate will be 26.5%.

Taxation of Shareholders

Capital Gains

Capital gains tax is imposed on the disposal of capital assets by an Israeli resident and on the disposal of such assets by a non-Israeli resident if those assets are either (i) located in Israel; (ii) are shares or a right to a share in an Israeli resident corporation, or (iii) represent, directly or indirectly, rights to assets located in Israel. The Israeli Income Tax Ordinance distinguishes between "Real Gain" and the "Inflationary Surplus." Real Gain is the excess of the total capital gain over Inflationary Surplus computed generally on the basis of the increase in the Israeli Consumer Price Index between the date of purchase and the date of disposal.

As of January 1, 2013, the real capital gain accrued by individuals on the sale of the Shares will be taxed at the rate of 25%. However, if the individual shareholder is a "Controlling Shareholder" (*i.e.*, a person who holds, directly or indirectly, alone or together with another, 10% or more of one of the Israeli resident company's means of control) at the time of sale or at any time during the preceding 12 month period, such gain will be taxed at the rate of 30%.

Individual and corporate shareholders dealing in securities in Israel are taxed at the tax rates applicable to business income - 25% for corporations in 2013 (which increased to 26.5% in January 2014) and a marginal tax rate of up to 48% in 2013 for individuals (an additional 2% tax rate would be levied on individuals whose taxable income from in Israel exceeds NIS 811,560 (approximately $231,000 based on the representative U.S. dollar – NIS rate of exchange of 3.51on February 23, 2014) in 2013). Notwithstanding the foregoing, capital gains generated from the sale of our Shares by a non-Israeli shareholder may be exempt from Israeli tax under the Israeli Income Tax Ordinance provided that the following cumulative conditions are met: (i) the Shares were purchased upon or after the registration of the Shares on the stock exchange, (ii) the seller does not have a permanent establishment in Israel to which the generated capital gain is attributed, and (iii) if the seller is a corporation, less than 25% of its means of control or the rights to its profit or income are held by or attributed to Israeli resident shareholders. In addition, the sale of the Shares may be exempt from Israeli capital gains tax under the provisions of an applicable double tax treaty. For example, the Convention between the Government of the U.S. and the Government of the State of Israel with respect to Taxes on Income (the "U.S.- Israel Double Tax Treaty") exempts a U.S. resident from Israeli capital gain tax in connection with the sale of the Shares, provided that: (i) the U.S. resident owned, directly or indirectly, less than 10% of the voting power of the company at any time within the 12 month period preceding such sale; (ii) the U.S. resident, being an individual, is present in Israel for a period or periods of less than 183 days during the taxable year; and (iii) the capital gain from the sale was not derived through a permanent establishment of the U.S. resident in Israel.

Withholding Obligations - Either the purchaser, the Israeli stockbroker or the financial institution through which the Shares are held, are obligated, subject to the above mentioned exemptions, to withhold tax upon the sale of Shares at a 25% tax rate from the "Real Gain" for corporations and individuals, and at a rate of 26.5% for corporation as of January 1, 2014.

Upon the sale of traded securities, a detailed return, including a computation of the tax due, must be filed and an advanced payment must be paid to the Israeli Tax Authority on January 31 and July 31 of every tax year in respect of sales of traded securities made within the previous six months. However, if all tax due was withheld at source according to applicable provisions of the Israeli Income Tax Ordinance and regulations promulgated thereunder, such return need not be filed and no advance payment must be paid. Capital gains are also reportable on annual income tax returns.

Dividends

As of January 1, 2013, dividends distributed by a company to a shareholder who is an Israeli resident individual will be generally subject to income tax at a rate of 25%. However, a 30% tax rate will apply if the dividend recipient is a Controlling Shareholder, as defined above, at the time of distribution or at any time during the preceding 12 month period. If the recipient of the dividend is an Israeli resident corporation, such dividend will be generally exempt from Israeli income tax provided that the income from which such dividend is distributed, derived or accrued within Israel.

As of January 1, 2013, dividends distributed by an Israeli resident company to a non-Israeli resident (either individual or corporation) are generally subject to tax on the receipt of such dividends at the rate of 25% (30% if the dividend recipient is a Controlling Shareholder at the time of distribution or at any time during the preceding 12 month period). These rates may be reduced under the provisions of an applicable double tax treaty. Thus, under the U.S.-Israel Double Tax Treaty, the following tax rates will apply in respect of dividends distributed by an Israeli resident company to a U.S. resident: (i) if the U.S. resident is a corporation which holds during that portion of the taxable year which precedes the date of payment of the dividend and during the whole of its prior taxable year (if any), at least 10% of the outstanding shares of the voting stock of the Israeli resident paying corporation and not more than 25% of the gross income of the Israeli resident paying corporation for such prior taxable year (if any) consists of certain types of interest or dividends the tax rate is 12.5%; (ii) if both the conditions mentioned in section (i) above are met and the dividend is paid from an Israeli resident company's income which was entitled to a reduced tax rate applicable to an Approved Enterprise/Benefited Enterprise/Preferred Enterprise – the tax rate is 15%; and (iii) in all other cases, the tax rate is 25%. The aforementioned rates under the U.S.-Israel Double Tax Treaty will not apply if the dividend income is attributed to a permanent establishment of the U.S. resident in Israel.

We are obligated to withhold tax upon the distribution of dividends at the following withholding tax rates: (A) for securities registered and held by a clearing corporation: (i) Israeli resident corporations – 0%, (ii) Israeli resident individuals – 25%, and (iii) non-Israeli residents - 25%, unless reduced under the provisions of an applicable double tax treaty; and (B) in all other cases: (i) Israeli resident corporations – 0%, (ii) Israeli resident individuals – 25% or 30% tax rate if the dividend recipient is a Controlling Shareholder at the time of the distribution or at any time during the preceding 12 months period)), and (iii) non-Israeli residents - 25% or 30% tax rate as referred to above with respect to Israeli resident individuals, unless reduced under the provisions of an applicable double tax treaty.

Foreign Exchange Regulations

Non-residents of Israel who hold our Shares are able to receive any dividends, and any amounts payable upon the dissolution, liquidation and winding up of our affairs, repayable in non-Israeli currency at the rate of exchange prevailing at the time of conversion. However, Israeli income tax is generally required to have been paid or withheld on these amounts. In addition, the statutory framework for the potential imposition of currency exchange control has not been eliminated, and may be restored at any time by administrative action.

U.S Federal Income Tax Considerations

The following is a summary of the material U.S. federal income tax consequences that apply to U.S. Holders who hold our Shares as capital assets for tax purposes. This summary is based on current provisions of the Internal Revenue Code of 1986, as amended (the "Code"), current and proposed Treasury regulations promulgated thereunder, and administrative and judicial decisions as of the date hereof, all of which are subject to change, possibly on a retroactive basis. This summary does not address all U.S. federal income tax matters that may be relevant to a particular perspective holder or all tax considerations that may be relevant with respect to an investment in our Shares.

This summary does not address tax considerations applicable to a holder of our Shares that may be subject to special tax rules including, without limitation, the following:

- dealers or traders in securities, currencies or notional principal contracts;
- financial institutions;
- insurance companies;
- real estate investment trusts;
- banks;
- investors subject to the alternative minimum tax;
- tax-exempt organizations;
- traders that have elected mark-to-market accounting;
- investors that hold Shares as part of a "straddle", "hedge", or "conversion transaction" with other investments;
- regulated investment companies;
- investors that actually or constructively own 10 percent or more of our voting shares;
- investors that are treated as partnerships or other pass through entities for U.S. federal income purposes and persons who hold the Shares through partnerships or other pass through entities; and
- U.S. Holders, as defined below, whose functional currency is not the U.S. dollars.

This summary does not address the effect of any U.S. federal taxation other than U.S. federal income taxation. In addition, this summary does not include any discussion of state, local, or foreign tax consequences to a holder of our Shares.

You are urged to consult your own tax advisor regarding the foreign and U.S. federal, state, and local and other tax consequences of an investment in the Shares.

- For purposes of this summary, a "U.S. Holder" means a beneficial owner of a Share that is for U.S. federal income tax purposes:
- an individual who is a citizen or resident of the U.S.;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in the U.S. or under the laws of the U.S. or any political subdivision thereof;
- an estate, the income of which is subject to U.S. federal income tax regardless of its source; or
- a trust (1) if (a) a court within the U.S. is able to exercise primary supervision over the administration of the trust; and (b) one or more U.S. persons have the authority to control all substantial decisions of the trust; or (2) that has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If an entity that is classified as a partnership for U.S. federal tax purposes holds Shares, the U.S. federal tax treatment of its partners will generally depend upon the status of the partners and the activities of the partnership. Entities that are classified as partnerships for U.S. federal tax purposes and persons holding Shares through such entities should consult their own tax advisors.

In general, if you hold American Depositary Shares, you will be treated as the holder of the underlying shares represented by those American Depositary Shares for U.S. federal income tax purposes. Accordingly, no gain or loss will be recognized if you exchange American Depositary Shares for the underlying Shares represented by those American Depositary Shares.

Distributions

Subject to the discussion under "Passive Foreign Investment Companies" below, the gross amount of any distribution, including the amount of any Israeli taxes withheld from these distributions (see "Israeli Tax Considerations"), actually or constructively received by a U.S. Holder with respect to Shares will be taxable to the U.S. Holder as foreign source dividend income to the extent of our current and accumulated earnings and profits as determined under U.S. federal income tax principles. The U.S. Holder will not be eligible for any dividends received deduction in respect of the dividends paid by domestic corporations. Distributions in excess of earnings and profits will be non-taxable to the U.S. Holder to the extent of the U.S. Holder's adjusted tax basis in its Shares. Distributions in excess of such adjusted tax basis will generally be taxable to the U.S. Holder as capital gain from the sale or exchange of property as described below under "Sale or Other Disposition of Shares." If we do not report to a U.S. Holder the portion of a distribution that exceeds earnings and profits, the distribution will generally be taxable as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above. The amount of any distribution of property other than cash will be the fair market value of that property on the date of distribution.

Under the Code, certain dividends received by non-corporate U.S. Holders will be subject to a maximum income tax rate of 20%. This reduced income tax rate is only applicable to dividends paid by a "qualified foreign corporation" that is not a PFIC and only with respect to shares held by a qualified U.S. Holder (i.e., a non-corporate holder) for a minimum holding period (generally 61 days during the 121-day period beginning 60 days before the ex-dividend date). We should be considered a qualified foreign corporation if we are not treated as a PFIC because (i) we are eligible for the benefits of a comprehensive tax treaty between Israel and the U.S., which includes an exchange of information program, and (ii) the American Depositary Shares are readily tradable on an established securities market in the U.S. As discussed below, however, we may be classified as a "passive foreign investment company" (see "Passive Foreign Investment Companies" below). Accordingly, dividends paid by us to individual U.S. Holders may not be eligible for the reduced income tax rate applicable to qualified dividends.

The amount of any distribution paid in a currency other than U.S. dollars (a "foreign currency") including the amount of any withholding tax thereon, will be included in the gross income of a U.S. Holder in an amount equal to the U.S. dollar value of the foreign currency calculated by reference to the exchange rate in effect on the date of the U.S. Holder's (or, in the case of American Depositary Shares, the depositary's) receipt of the dividend, regardless of whether the foreign currency is converted into U.S. dollars. If the foreign currency is converted into U.S. dollars on the date of receipt, a U.S. Holder generally should not be required to recognize a foreign currency gain or loss in respect of the dividend. If the foreign currency received in the distribution is not converted into U.S. dollars on the date of receipt, a U.S. Holder will have a basis in the foreign currency equal to its U.S. dollar value on the date of receipt. Any gain or loss on a subsequent conversion or other disposition of the foreign currency will be treated as U.S. source ordinary income or loss.

Subject to certain conditions and limitations, any Israeli taxes withheld on dividends may be creditable against a U.S. Holder's U.S. federal income tax liability, subject to generally applicable limitations. The rules relating to foreign tax credits and the timing thereof are complex. U.S. Holders should consult their own tax advisors regarding the availability of a foreign tax credit in their particular situation (including, in the case of a U.S. corporation that owns 10 percent or more of our voting shares, the possible application of Section 902 of the Code).

Sale or Other Disposition of Shares

If a U.S. Holder sells or otherwise disposes of its Shares, gain or loss will be recognized for U.S. federal income tax purposes in an amount equal to the difference between the amount realized on the sale or other disposition and such holder's adjusted basis in the Shares. Subject to the discussion below under the heading "Passive Foreign Investment Companies," such gain or loss generally will be a capital gain or loss and will be a long-term capital gain or loss if the holder had held the Shares for more than one year at the time of the sale or other disposition. Long-term capital gains realized by non-corporate U.S. Holders are generally subject to a preferential U.S. federal income tax rate. In general, gain or loss recognized by a U.S. Holder on the sale or other disposition or our Shares will be U.S. source gain or loss for purposes of the foreign tax credit limitation.

If a U.S. Holder receives foreign currency upon a sale or exchange of Shares, gain or loss will be recognized in the manner described above under "Distributions." In addition, gain or loss, if any, recognized on the subsequent sale, conversion, or disposition of such foreign currency will be U.S. source ordinary income or loss for foreign tax credit limitation purposes. However, if such foreign currency is converted into U.S. dollars on the date received by the U.S. Holder, the U.S. Holder generally should not be required to recognize any foreign currency gain or loss on such conversion.

A U.S. Holder who holds Shares through an Israeli broker or other Israeli intermediary may be subject to Israeli withholding tax on any capital gains recognized on a sale or other disposition of the Shares if the U.S. Holder does not obtain approval of an exemption from the Israeli Tax Authorities or claim any allowable refunds or reductions. U.S. Holders are advised that any Israeli tax paid under circumstances in which an exemption from (or a refund of or a reduction in) such tax was available will not be creditable for U.S. federal income tax purposes. U.S. Holders are advised to consult their Israeli broker or intermediary regarding the procedures for obtaining an exemption or reduction.

Medicare Tax on Unearned Income

U.S. Holders that are individuals, estates or trusts will be required to pay an additional 3.8% tax on their investment income, including dividends paid on the Shares and capital gains from the sale or other disposition of the Shares.

Passive Foreign Investment Companies

For U.S. federal income tax purposes, we will be considered a passive foreign investment company ("PFIC") for any taxable year in which either 75% or more of our gross income is passive income, or at least 50% of the average value of all of our assets for the taxable year produce or are held for the production of passive income. For this purpose, passive income includes dividends, interest, royalties, rents, annuities, and the excess of gains over losses from the disposition of assets which produce passive income. If we were determined to be a PFIC for U.S. federal income tax purposes, highly complex rules would apply to U.S. Holders owning Shares.

Based on our estimated gross income, the average value of our gross assets, and the nature of our business, we believe that we may be classified as a PFIC in the current taxable year and in future years. Our status as a PFIC will depend on the composition of our assets and activities in each year and because this is a factual determination there can be no assurance that we will not be considered a PFIC for the current taxable year or for any future taxable year. If we are treated as a PFIC in any year during which a U.S. Holder owns Shares, certain adverse tax consequences could apply, as described below. If we are treated as a PFIC for any taxable year,

- a U.S. Holder would be required to allocate income recognized upon receiving certain dividends or gain recognized upon the disposition of Shares ratably over its holding period for such Shares,
- the amount allocated to each year during which we are considered a PFIC other than the year of the dividend payment or disposition would be subject to tax at the highest individual or corporate tax rate, as the case may be, and an interest charge would be imposed with respect to the resulting tax liability allocated to each such year,
- the amount allocated to the year of the dividend payment or disposition would be taxable as ordinary income, and
- the favorable dividend rate discussed above with respect to dividends paid to certain non-corporate U.S. Holders would not apply.

As described below, certain elections may be available that would result in alternative treatments (such as mark-to-market or qualified electing fund treatment) to U.S. Holders of our Shares. A U.S. Holder that makes an election to treat us as a qualified electing fund (an "electing U.S. Holder") is required for each taxable year to include in income a pro rata share of the ordinary earnings of the qualified electing fund as ordinary income and a pro rata share of the net capital gain of the qualified electing fund as long-term capital gain, subject to a separate election to defer payment of taxes, which deferral is subject to an interest charge. A U.S. Holder may make a qualified electing fund election only if we furnish the U.S. Holder with certain tax information. We have agreed to supply an electing U.S. Holder with the information necessary to report income and gain pursuant to a qualified election in the event we are classified as a PFIC. Alternatively, another method to avoid the aforementioned treatment is for a U.S. Holder to make a timely mark-to-market election in respect of its Shares. If a U.S. Holder elects to mark-to-market its Shares, the excess of the fair market value of the Shares at the close of each tax year over such U.S. Holder's adjusted tax basis in such Shares will be included in income. If the fair market value of the Shares is less than the U.S. Holder's adjusted tax basis in its Shares at the close of the tax year, the U.S. Holder may generally deduct the excess of the adjusted tax basis of the Shares over their fair market value at such time. However, such deductions generally would be limited to the net mark-to-market gains, if any, that were included in income by such holder with respect to our Shares in prior years. Income recognized and deductions allowed under the mark-to-market provisions, as well as any gain or loss on the disposition of Shares with respect to which the mark-to-market election is made, are treated as ordinary income or loss.

If during any taxable year of a U.S. Holder ending on or after December 31, 2013 such U.S. Holder owns ordinary shares and we are a PFIC in such year, the U.S. Holder generally will be required to file an IRS Form 8621 (Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund) with respect to the company (generally with the U.S. Holder's federal income tax return for that year), unless a *de minimis* exception applies. U.S. Holders are urged to consult their tax advisors regarding their annual filing requirements.

You are urged to consult your own tax advisor regarding the possibility of us being classified as a PFIC and the potential tax consequences arising from the ownership and disposition of an interest in a PFIC.

Backup Withholding and Information Reporting

Payments of dividends with respect to Shares and the proceeds from the sale, retirement, or other disposition of Shares made by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable U.S. Treasury regulations. We, or an agent, a broker, or any paying agent, as the case may be, may be required to withhold tax (backup withholding), currently at the rate of 28%, if a non-corporate U.S. Holder that is not otherwise exempt fails to provide an accurate taxpayer identification number and comply with other IRS requirements concerning information reporting. Certain U.S. Holders (including, among others, corporations and tax-exempt organizations) are not subject to backup withholding. Any amount of backup withholding withheld may be used as a credit against your U.S. federal income tax liability provided that the required information is furnished to the IRS. U.S. Holders should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We are subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended, applicable to foreign private issuers, and under those requirements we file reports with the Securities and Exchange Commission. Those other reports or other information may be inspected without charge at the Securities and Exchange Commission's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Copies of the material may be obtained by mail from the Public Reference Branch of the Securities and Exchange Commission at such address, at prescribed rates. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the public reference room. Our filings with the Securities and Exchange Commission are also available to the public through the Securities and Exchange Commission's website at *http://www.sec.gov*.

As a foreign private issuer, we are exempt from the rules under the Securities Exchange Act of 1934, as amended, related to the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Securities Exchange Act of 1934, as amended. In addition, we are not required under the Securities Exchange Act of 1934, as amended, to file annual, quarterly and current reports and financial statements with the Securities and Exchange Commission as frequently or as promptly as U.S. companies whose securities are registered under the Securities Exchange Act of 1934, as amended. However, we are required to comply with the informational requirements of the Securities Exchange Act of 1934, as amended, and, accordingly, file current reports on Form 6-K, annual reports on Form 20-F and other information with the Securities and Exchange Commission.

In addition, since our ordinary shares are traded on the Tel Aviv Stock Exchange, we have filed Hebrew language periodic and immediate reports with, and furnish information to, the Tel Aviv Stock Exchange and the Israeli Securities Authority, as required under Chapter Six of the Israel Securities Law, 1968. Copies of our filings with the Israeli Securities Authority can be retrieved electronically through the MAGNA distribution site of the Israeli Securities Authority (*www.magna.isa.gov.il*) and the Tel Aviv Stock Exchange website (*www.maya.tase.co.il*).

We maintain a corporate website at *www.redhillbio.com*. Information contained on, or that can be accessed through, our website does not constitute a part of this Annual Report.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss related to changes in market prices, including interest rates and foreign exchange rates, of financial instruments that may adversely impact our financial position, results of operations or cash flows. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance.

Risk of Interest Rate Fluctuation and Credit Exposure Risk

In the near future, we do not anticipate undertaking any significant long-term borrowings. At present, our credit and interest risk arises from cash and cash equivalents, deposits with banks as well as accounts receivable. A substantial portion of our liquid instruments is invested in short-term deposits in highly-rated institutions.

We estimate that because the liquid instruments are invested mainly for the short-term and with highly-rated institutions, the credit and interest risk associated with these balances is immaterial. The primary objective of our investment activities is to preserve principal while maximizing the income we receive from our investments without significantly increasing risk and loss. Our investments are exposed to market risk due to fluctuations in interest rates, which may affect our interest income and the fair market value of our investments. We manage this exposure by performing ongoing evaluations of our investments.

Market Price Risk

We may be exposed to market price risk because of investments in tradable securities held by us and classified in our financial statements on as financial assets at fair value through profit or loss. To manage the price risk arising from investments in tradable securities, we invest in marketable securities with high ratings and diversify our investment portfolio.

Foreign Currency Exchange Risk

Our foreign currency exposures give rise to market risk associated with exchange rate movements of the U.S. dollar, our functional and reporting currency, mainly against the NIS and other currencies. Although the U.S. dollar is our functional currency and reporting currency, a portion of our expenses are denominated in NIS. Our NIS expenses consist principally of payments to employees or service providers and short term investments in currencies other than the U.S. dollar. We anticipate that a sizable portion of our expenses will continue to be denominated in currencies other than the U.S. dollar. If the U.S. dollar fluctuates significantly against the NIS it may have a negative impact on our results of operations. We manage our foreign exchange risk by aligning the currencies for holding short term investments with the currencies of expected expenses, based on our expected cash flows.

Portfolio diversification is performed based on risk level limits that we set. To date, we have not engaged in hedging transactions. In the future, we may enter into currency hedging transactions to decrease the risk of financial exposure from fluctuations in the exchange rates of our principal operating currencies. These measures, however, may not adequately protect us from the material adverse effects of such fluctuations.

(A) Set forth below is a sensitivity test to possible changes in U.S. dollars/ NIS exchange rate as of December 31, 2013:

Sensitive instrument	Income (loss) from change in exchange rate (U.S. dollars in thousands)		Value (U.S. dollars in thousands)	Income (loss) from change in exchange rate (U.S dollars in thousands)	
	Down 2%	Down 5%		Up 5%	Up 2%
Cash and cash equivalents	37	94	11,851	(94)	(37)
Bank deposits	-	1	100	(1)	-
Financial asset at fair value	5	12	243	(12)	(5)
Accounts receivable	1	3	488	(3)	(1)
Accounts payable and accrued expenses	(5)	(14)	(2,415)	14	5
Total loss	38	96		(96)	(38)

(B) As of the date of this Annual Report, our interest rate risk exposure is in respect to bank deposits, which expose us to risk due to change in fair value interest rates. As of December 31, 2013, these deposits carry annual interest of 0.6%-0.77%. Under these low interest rates, reasonable changes in interest rates are expected have negligible impact on the fair value of these assets.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable

C. Other Securities

Not applicable

D. American Depositary Shares

Each of our American Depositary Shares, or ADSs, represents 10 of our ordinary shares. Our ADSs trade on The Nasdaq Capital Market.

The form of the deposit agreement for the ADSs and the form of American Depositary Receipt (ADR) that represents an ADS have been incorporated by reference as exhibits to this Annual Report on Form 20-F. Copies of the deposit agreement are available for inspection at the principal office of The Bank of New York Mellon, located at 101 Barclay Street, New York, New York 10286, and at the principal office of our custodians, Bank Leumi Le-Israel, 34 Yehuda Halevi St., Tel-Aviv 65546, Israel and Bank Hapoalim B.M., 104 Hayarkon Street, Tel Aviv 63432, Israel.

Fees and Expenses

***Persons depositing or withdrawing shares or American Depositary Share holders must pay*:**	***For*:**
$5.00 (or less) per 100 American Depositary Shares (or portion of 100 American Depositary Shares)	• Issuance of American Depositary Shares, including issuances resulting from a distribution of shares or rights or other property
	• Cancellation of American Depositary Shares for the purpose of withdrawal, including if the deposit agreement terminates
$0.05 (or less) per American Depositary Share	• Any cash distribution to American Depositary Share holders
A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of American Depositary Shares	• Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to American Depositary Share holders
$0.05 (or less) per American Depositary Shares per calendar year	• Depositary services
Registration or transfer fees	• Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares
Expenses of the depositary	• Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)
	• converting foreign currency to U.S. dollars
Taxes and other governmental charges the depositary or the custodian have to pay on any American Depositary Share or share underlying an American Depositary Share, for example, stock transfer taxes, stamp duty or withholding taxes	• As necessary
Any charges incurred by the depositary or its agents for servicing the deposited securities	• As necessary

The depositary collects its fees for delivery and surrender of American Depositary Shares directly from investors depositing shares or surrendering American Depositary Shares for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

From time to time, the depositary may make payments to us to reimburse and/or share revenue from the fees collected from American Depositary Share holders, or waive fees and expenses for services provided, generally relating to costs and expenses arising out of establishment and maintenance of the American Depositary Share program. In performing its duties under the deposit agreement, the depositary may use brokers, dealers or other service providers that are affiliates of the depositary and that may earn or share fees or commissions.

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable

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

Not applicable

ITEM 15. CONTROLS AND PROCEDURES

(a) **Disclosure Controls and Procedures**

We performed an evaluation of the effectiveness of our disclosure controls and procedures that are designed to ensure that information required to be disclosed on Form 20-F and filed with the Securities and Exchange Commission is recorded, processed, summarized and reported timely within the time period specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. There can be no assurance that our disclosure controls and procedures will detect or uncover all failures of persons within the company to disclose information otherwise required to be set forth in our reports. Nevertheless, our disclosure controls and procedures are designed to provide reasonable assurance of achieving the desired control objectives. Based on our evaluation, our management, including our Chief Executive Officer and Deputy CEO Finance and Operations, have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15(d) - 15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report are effective at such reasonable assurance level.

(b) **Management's Annual Report on Internal Control over Financial Reporting**

Our management, under the supervision of our chief executive officer and Deputy CEO Finance and Operations, is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act of 1934, as amended. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and asset dispositions;
- provide reasonable assurance that transactions are recorded as necessary to permit the preparation of our financial statements in accordance with generally accepted accounting principles;
- provide reasonable assurance that receipts and expenditures are made only in accordance with authorizations of our management and board of directors (as appropriate); and
- provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on our financial statements.

Due to its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. In addition, 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.

Under the supervision and with the participation of our management, including our chief executive officer and Deputy CEO Finance and Operations, we assessed the effectiveness of our internal control over financial reporting as of December 31, 2013 based on the framework for Internal Control-Integrated Framework set forth by The Committee of Sponsoring Organizations of the Treadway Commission (COSO)(1992). Based on our assessment and this framework, our management concluded that the Company's internal control over financial reporting were effective as of December 31, 2013.

(c) **Attestation Report of Registered Public Accounting Firm**

Not applicable.

(d) **Changes in Internal Controls over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Aliza Rotbard, Dan Suesskind and Ofer Tsimchi are audit committee financial experts. Ms. Rotbard, Mr. Tsimchi and Mr. Suesskind are independent directors for the purposes of the Nasdaq rules.

ITEM 16B. CODE OF ETHICS

As of the date of this Annual Report, we have adopted a code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. This code of ethics is posted on our website, http://ir.redhillbio.com/governance.cfm

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Fees Paid to Independent Registered Public Accounting Firm

The following table sets forth, for each of the years indicated, the aggregate fees billed by our independent registered public accounting firm for professional services.

	Year Ended December 31,	
	2012	2013
Services Rendered	(U.S. dollars in thousands)	
Audit (1)	70	99
Audit related services (2)	157	4
Tax (3)	-	-
Total	227	103

(1) Audit fees consist of services that would normally be provided in connection with statutory and regulatory filings or engagements, including services that generally only the independent accountant can reasonably provide.
(2) Audit related services relate to work regarding a public listing.
(3) Tax fees relate to tax compliance, planning and advice.

Audit Committee Pre-Approval Policies and Procedures

Our audit committee's specific responsibilities in carrying out its oversight of the quality and integrity of the accounting, auditing and reporting practices of the Company include the approval of audit and non-audit services to be provided by the external auditor. The audit committee approves in advance the particular services or categories of services to be provided to the Company during the following yearly period and also sets forth a specific budget for such audit and non-audit services. Additional non-audit services may be pre-approved by the audit committee.

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

Not applicable.

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

Not applicable

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT.

Not applicable

ITEM 16G. CORPORATE GOVERNANCE

Nasdaq Stock Market Listing Rules and Home Country Practices

As a foreign private issuer, we are permitted to follow Israeli corporate governance practices instead of Nasdaq Marketplace Rules, provided that we disclose which requirements we are not following and the equivalent Israeli requirement. We rely on this "foreign private issuer exemption" with respect to the following items:

- *Independent Directors* - Our board of directors includes two external directors in accordance with the Israeli Companies Law, but does not require that a majority of our board members be independent as required by the Nasdaq Listing Rules. Furthermore, Israeli law does not require, nor do our independent directors conduct, regularly scheduled meetings at which only our independent directors are present.

- *Shareholder Approval* - We seek shareholder approval for all corporate actions requiring such approval in accordance with the requirements of the Israeli Companies Law, which are different from the shareholder approval requirements under the Nasdaq Listing Rules. The NASDAQ Listing Rules require that we obtain shareholder approval for certain dilutive events, such as for the establishment or amendment of certain equity-based compensation plans and arrangements, issuances that will result in a change of control of a company, certain transactions other than a public offering involving issuances of 20% or more of the shares or voting power in a company, and certain acquisitions of the stock or assets of another company involving issuances of 20% or more of the shares or voting power in a company or if any director, officer or holder of 5% or more of the shares or voting power of the company has a 5% or greater interest in the company or assets to be acquired or consideration to be paid and the transaction could result in an increase in the outstanding common shares or voting power by 5% or more.

  Under the Israeli Companies Law, shareholder approval is required for any transaction, including any grant of equity-based compensation, to a director or a controlling shareholder, but is not generally required to establish or amend an equity based compensation plan. Similarly, shareholder approval is required for a private placement that is deemed a "extraordinary private placement" or that involves a director or controlling shareholder. A "extraordinary private placement" is a private placement in which a company issues securities representing 20% or more of its voting rights prior to the issuance and the consideration received pursuant to such issuance is not comprised, in whole or in part, solely of cash or securities registered for trade on an exchange or which is not made pursuant to market conditions, and as a result of which the shareholdings of a 5% holder of the shares or voting rights of the company increases or as a result of which a person will become a holder of 5% of the shares or voting rights of the company or a controlling shareholder after the issuance.

- *Quorum* - As permitted under the Israeli Companies Law, pursuant to our articles of association, the quorum required for an ordinary meeting of shareholders consists of at least two shareholders present in person or by proxy who hold or represent at least 25% of the voting rights of our shares (and in an adjourned meeting, with some exceptions, any number of shareholders), instead of 33 1/3% of the issued share capital required under the Nasdaq Listing Rules.

- *Nominations Committee* - As permitted under the Israeli Companies Law, our board of directors selects director nominees subject to the terms of our articles of association which provide that incumbent directors are re-nominated for additional terms. Directors are not selected, or recommended for board of director selection, by independent directors constituting a majority of the board's independent directors or by a nominations committee comprised solely of independent directors as required by the Nasdaq Listing Rules.

Otherwise, we comply with the rules generally applicable to U.S. domestic companies listed on the Nasdaq Stock Market. We may in the future decide to use the foreign private issuer exemption with respect to some or all of the other Nasdaq Marketplace Rules related to corporate governance. We also comply with Israeli corporate governance requirements under the Israeli Companies Law applicable to public companies.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable

ITEM 17. FINANCIAL STATEMENTS

Not applicable

ITEM 18. FINANCIAL STATEMENTS

The financial statements required by this item are found at the end of this Annual Report, beginning on page F-1.

ITEM 19. EXHIBITS

See Exhibit Index on page 110.

Glossary of Industry Terms

Certain standards and other terms specific to our industry that are used in this Annual Report are defined below:

5-HT3 family receptor inhibitors - play a role in mediating nausea and vomiting, and as such, demonstrate anti-emetic efficacy.

Bioequivalence - the absence of a significant difference in the rate and extent to which the active ingredient or active moiety in pharmaceutical equivalents or pharmaceutical alternatives becomes available at the site of drug action when administered at the same molar dose under similar conditions in an appropriately designed study. To be considered "bioequivalent", certain standards specified by the US Food and Drug Administration must be met.

Carvedilol - a non-selective beta blocker/alpha-1 blocker indicated in the treatment of hypertension and/or congestive heart failure (CHF).

cGMP - Current Good Manufacturing Practice - Standards, procedures and guidelines designed for production quality control.

Clinical trial material (CTM) manufacturing - manufacturing of study supplies provided by the study sponsor to the clinical investigator.

CRO - a Contract Research Organization, also called a clinical research organization (CRO) is a service organization that provides outsourced pharmaceutical research services.

H. pylori (*Helicobacter pylori****)*** - a Gram-negative bacterium found in the stomach. It was identified in 1982 by Dr. Barry Marshall and Dr. Robin Warren and is associated with peptic ulcer disease and development of gastric cancer.

IND - Investigational New Drug - a status assigned by the Food and Drug Administration to a drug before allowing its use in humans, so that experimental clinical trials may be conducted.

MAP bacterium (*Mycobacterium avium subspecies paratuberculosis* (MAP)) - an obligate pathogenic bacterium in the genus Mycobacterium.

NDA - New Drug Application - an application by drug sponsors to the Food and Drug Administration for approval of a new pharmaceutical for sale and marketing in the U.S.

Ondansetron - Ondansetron is a drug in class of medications called serotonin 5-HT_3 receptor antagonists. Ondansetron works by blocking the action of serotonin, a natural substance that may cause nausea and vomiting.

Orphan Drug Status - the designation of Orphan Drug status to drugs that are in the process of development for the treatment of rare diseases. This status provides tax reductions and the exclusive rights to the cure for a specific condition for a period of seven years post-approval.

Pivotal Bioequivalence (BE) Clinical Trial - a study the data from which is submitted to the Food and Drug Administration in support of a marketing application of a test drug that is being compared to a referenced existing (already approved) drug. Sufficient similarity between the test and the reference drug is required, according to certain standards specified by the Food and Drug Administration, which must be met.

Stability Testing - as part of the cGMP regulations, the Food and Drug Administration requires that drug products bear an expiration date determined by appropriate stability testing. The stability of drug products needs to be evaluated over time in the same container-closure system in which the drug product is marketed.

Triptans - serotonin 5-hydroxytryptamine (5-HT) receptor agonists drugs used for the treatment of migraine.

Rizatripan - a serotonin 5-HT 1B/1D receptor agonist of the triptan class of drugs.

Mycobacterium avium subspecies paratuberculosis (MAP) - MAP is the causative agent of Johne disease, a chronic granulomatous ileitis occurring mainly in ruminants. MAP has been incriminated as the cause of Crohn disease in humans.

REDHILL BIOPHARMA LTD.
2013 FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the shareholders of
REDHILL BIOPHARMA LTD.

We have audited the accompanying statements of financial position of RedHill Biopharma Ltd. (the "Company") as of December 31, 2013 and 2012 and the related statements of comprehensive loss, changes in equity and cash flows for each of the three years in the period ended on December 31, 2013. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2013 and 2012 and the results of its operations, changes in equity and cash flows for each of the three years in the period ended on December 31, 2013, in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Tel-Aviv, Israel
February 24, 2014

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

Kesselman & Kesselman, Trade Tower, 25 Hamered Street, Tel-Aviv 6812508, Israel,
P.O Box 50005 Tel-Aviv 6150001 Telephone: +972 -3- 7954555, Fax:+972 -3- 7954556, www.pwc.com/il

REDHILL BIOPHARMA LTD.
STATEMENTS OF COMPREHENSIVE LOSS

	Note	Year ended December 31		
		2013	2012	2011
		U.S. dollars in thousands		
REVENUE		12	16	23
RESEARCH AND DEVELOPMENT EXPENSES, net	17	(8,100)	(6,455)	(5,414)
GENERAL AND ADMINISTRATIVE EXPENSES	18	(2,684)	(2,601)	(2,482)
OPERATING LOSS		(10,772)	(9,040)	(7,873)
FINANCIAL INCOME		158	197	570
FINANCIAL EXPENSES		(14)	(1,483)	(8,200)
FINANCIAL INCOME (EXPENSES), net	19	144	(1,286)	(7,630)
LOSS AND COMPREHENSIVE LOSS		(10,628)	(10,326)	(15,503)
LOSS PER ORDINARY SHARE - basic and diluted (U.S. dollars)	20	(0.17)	(0.20)	(0.32)

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

REDHILL BIOPHARMA LTD.
STATEMENTS OF FINANCIAL POSITION

	Note	December 31	
		2013	2012
		U.S. dollars in thousands	
CURRENT ASSETS:			
Cash and cash equivalents	5	11,851	16,814
Bank deposits		19	486
Financial assets at fair value through profit or loss	6	243	1,065
Prepaid expenses and receivables	7	488	198
		12,601	18,563
NON-CURRENT ASSETS:			
Restricted bank deposits		81	75
Fixed assets	8	103	113
Intangible assets	9	1,555	1,345
		1,739	1,533
TOTAL ASSETS		14,340	20,096
CURRENT LIABILITIES -			
Accounts payable and accrued expenses	11	2,415	1,078
COMMITMENTS	13		
EQUITY:	15		
Ordinary shares		174	143
Ordinary shares to be issued		-	8,020
Additional paid-in capital		43,144	31,469
Warrants		1,867	3,273
Accumulated deficit		(33,260)	(23,887)
TOTAL EQUITY		11,925	19,018
TOTAL LIABILITIES AND EQUITY		14,340	20,096

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

REDHILL BIOPHARMA LTD.
STATEMENTS OF CHANGES IN EQUITY

	Ordinary shares	Ordinary shares to be issued	Convertible preferred shares	Additional paid-in capital	Warrants	Accumulated deficit	Total equity
	U.S. dollars in thousands						
BALANCE AT JANUARY 1, 2011	3	-	2	925	45	(2,569)	(1,594)
CHANGES DURING THE YEAR ENDED DECEMBER 31, 2011:							
Comprehensive loss	-	-	-	-	-	(15,503)	(15,503)
Exercise of warrants into convertible preferred shares	-	-	*	629	(45)	-	584
Conversion of convertible preferred shares into ordinary shares	2	-	(2)			-	-
Distribution of bonus shares	42	-		(42)		-	-
Conversion of mandatory convertible loans to equity	53	-	-	17,381	1,749	-	19,183
Issuance of ordinary shares and warrants under public offering	39	-	-	11,352	1,271	-	12,662
Exercise of warrants into ordinary shares	3	-	-	923	(334)	-	592
Share-based compensation to employees and service providers	-	-	-	-	-	2,863	2,863
BALANCE AT DECEMBER 31, 2011	142	-	-	31,168	2,686	(15,209)	18,787
BALANCE AT JANUARY 1, 2012	142	-	-	31,168	2,686	(15,209)	18,787
CHANGES DURING THE YEAR ENDED DECEMBER 31, 2012:							
Comprehensive loss	-	-	-	-	-	(10,326)	(10,326)
Exercise of options into ordinary shares	1	-	-	301	-	-	302
Cash receipt on account of ordinary shares and warrants, see note 15a(6)	-	5,661	-	-	587		6,248
Settlement of the royalty obligations, see note 12	-	2,359	-	-	-	-	2,359
Share-based compensation to employees and service providers	-	-	-	-	-	1,648	1,648
BALANCE AT DECEMBER 31, 2012	143	8,020	-	31,469	3,273	(23,887)	19, 018

* Represents amount less than $1 thousand.

REDHILL BIOPHARMA LTD.
STATEMENTS OF CHANGES IN EQUITY

	Ordinary shares	Ordinary shares to be issued	Additional paid-in capital	Warrants	Accumulated deficit	Total equity
	US dollars in thousands					
BALANCE AT JANUARY 1, 2013	143	8,020	31,469	3,273	(23,887)	19,018
CHANGES DURING THE YEAR ENDED DECEMBER 31, 2013:						
Comprehensive loss	-	-	-	-	(10,628)	(10,628)
Exercise of warrants and options into ordinary shares, net	7	-	3,311	(1,138)	-	2,180
Issuance of ordinary shares and warrants, see notes 15a(6) and 12	24	(8,020)	8,087	9	-	100
Warrants expiration	-	-	277	(277)	-	-
Share-based compensation to employees and service providers	-	-	-	-	1,255	1,255
BALANCE AT DECEMBER 31, 2013	174	-	43,144	1,867	(33,260)	11,925

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

REDHILL BIOPHARMA LTD.
STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2013	2012	2011
	U.S. dollars in thousands		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Loss	(10,628)	(10,326)	(15,503)
Adjustments in respect of income and expenses not involving cash flows:			
Share-based compensation to employees and service providers	1,255	1,648	2,863
Fair value losses on mandatory convertible loans	-	-	7,938
Depreciation	24	24	15
Fair value losses (gains) on financial assets at fair value through profit or loss	(54)	(57)	29
Revaluation of bank deposits	(16)	(4)	9
Accretion and settlement of royalty obligations to investors	-	1,473	168
Exchange differences in respect of cash and cash equivalents	(64)	(12)	(640)
Changes in asset and liability items:			
Decrease (increase) in prepaid expenses and receivables	(290)	(109)	61
Increase in accounts payable and accrued expenses	1,337	568	369
Net cash used in operating activities	(8,436)	(6,795)	(4,691)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed assets	(14)	(8)	(136)
Purchase of intangible assets	(210)	(100)	(45)
Changes in investment in bank deposits	477	2,529	(3,080)
Purchase of financial assets at fair value through profit or loss	-	(1,032)	(1,506)
Proceeds from sale of financial assets at fair value through profit or loss	876	1,588	-
Net cash provided by (used in) investing activities	1,129	2,977	(4,767)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of ordinary shares and warrants, net	100	6,248	12,662
Exercise of warrants and options into shares, net of expenses	2,180	302	1,176
Net cash provided by financing activities	2,280	6,550	13,838
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,027)	2,732	4,380
EXCHANGE DIFFERENCES ON CASH AND CASH EQUIVALENTS	64	12	640
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	16,814	14,070	9,050
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF YEAR	11,851	16,814	14,070
SUPPLEMENTARY INFORMATION ON INTEREST RECEIVED IN CASH	30	126	14
SUPPLEMENTARY INFORMATION ON FINANCING ACTIVITIES NOT INVOLVING CASH FLOWS:			
Settlement of the royalty obligations	-	2,359	-
Conversion of mandatory convertible loans	-	-	19,183

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

NOTE 1 - GENERAL INFORMATION:

a. General

RedHill Biopharma Ltd. (the "Company") was incorporated in Israel on August 3, 2009 and is active in the pharmaceutical industry. The Company is focused primarily on the development and acquisition of therapeutic candidates (the "Drugs"). In particular, the Company acquires or in-licenses and develops patent-protected new formulations and combinations of existing drugs in advanced stages of development. Additionally, the Company's strategy is to commercialize these Drugs (in cooperation with and/or through pharmaceutical and biotechnology companies) and to acquire rights in additional drugs.

The Company's primary therapeutic focus is on inflammatory and gastrointestinal (GI) diseases, including cancers and related conditions.

In February 2011, the Company listed its securities on the Tel-Aviv Stock Exchange ("TASE") and they have been traded on the TASE since then. Since December 2012, the Company's American Depositary Shares ("ADSs") have been listed on the NASDAQ Capital Market ("NASDAQ").

The Company's registered address is at 21 Ha'arba'a St, Tel-Aviv, Israel.

The Company is still engaged in the research and development of its therapeutic candidates. Accordingly, the Company is unable to estimate if and when its business will generate positive cash flow. Through December 31, 2013, the Company had accumulated an operating loss and its activities have been funded through public and private offerings of the Company's securities.

The Company plans to fund its future operations through commercialization of its therapeutic candidates, out-licensing certain programs and raising additional capital. The Company's current cash resources are not sufficient to complete the research and development of all of the Company's therapeutic candidates. Management expects that the Company will incur more losses as it continues to focus its resources on advancing its therapeutic candidates based on a prioritized plan that will result in negative cash flows from operating activities. The Company believes its existing capital resources should be sufficient to fund its current and planned operations for at least the next 12 months. See subsequent event note 22 for capital raised in January 2014.

If the Company is unable to commercialize or out-license its therapeutic candidates or obtain future financing, the Company may be forced to delay, reduce the scope of, or eliminate one or more of its research, development programs or commercialization related to the therapeutic candidates, any of which may have a material adverse effect on the Company's business, financial condition and results of operations.

b. Approval of financial statements

These financial statements were approved by the Board of Directors on February 24, 2014.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Basis for presentation of the financial statements

The financial statements of the Company as of December 31, 2013 and 2012 and for each of the three years in the period ended on December 31, 2013 have been prepared in accordance with International Financial Reporting Standards, ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The significant accounting policies described below have been applied consistently in relation to all the periods presented, unless otherwise stated.

The financial statements have been prepared under the historical cost convention, subject to adjustments in respect of revaluation of financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3. Actual results could differ significantly from those estimates and assumptions.

b. Translation of foreign currency balances and transactions:

1) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (the "Functional Currency"). The financial statements are presented in U.S. dollars, which is the Company's functional and presentation currency.

2) Transactions and balances

Foreign currency transactions in currencies different from the Functional Currency (hereafter foreign currency, mostly New Israeli Shekels ("NIS")) are translated into the Functional Currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange differences resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recorded to the statement of comprehensive loss among financing income or expenses.

c. Cash and cash equivalents

Cash and cash equivalents include cash on hand and unrestricted short-term bank deposits with maturities of three months or less.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

d. Fixed assets

Fixed assets are recognized as assets only if (a) it is probable that future economic benefits associated with the item will flow to the Company and (b) the cost of the item can be measured reliably.

Fixed assets items are initially recognized at acquisition cost. Fixed assets items are stated at cost less accumulated depreciation and impairment losses.
Depreciation is computed by the straight- line method, to reduce the cost of fixed assets to their residual value over their estimated useful lives as follows:

	%
Computers	33
Office furniture and equipment	8-15

Leasehold improvements are depreciated by the straight-line method over the shorter of the term of the lease or the estimated useful life of the improvements.
The assets' residual values, useful lives and depreciation method are reviewed, and adjusted, if appropriate, at least once a year.

e. Research and development:

1) Research and development assets acquired by the Company, the development of which has not been completed yet, are stated at cost and are not amortized; these assets are tested for impairment once a year. At the time these assets will be available for use, they will be amortized by the straight line method over their useful lives.

2) Research expenses are charged to profit or loss as incurred. An intangible asset arising from development of the Company's Drugs is recognized if all of the following conditions are met:
   - It is technically feasible to complete the intangible assets so that it will be available for use;
   - Management intends to complete the intangible asset and use it or sell it;
   - There is an ability to use or sell the intangible asset;
   - It can be demonstrated how the intangible asset will generate probable future economic benefits;
   - Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and costs associated with the intangible asset during development can be measured reliably.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Other development costs that do not meet the above criteria are recognized as expenses as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

As of December 31, 2013 and 2012, the Company has not yet capitalized development costs.

3) Amounts paid to purchase intellectual property of drugs are capitalized and carried as intangible assets. Amounts due for future payment, based on agreements, will be accrued upon reaching the relevant milestones.

4) Research and development costs for the performance of clinical trials and manufacturing by subcontractors are recognized as incurred.

f. Impairment of non-financial assets

Depreciable assets are tested for impairment if any events have occurred or changes in circumstances have taken place, which might indicate that their carrying amounts may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Nonfinancial assets that were subject to impairment are reviewed for possible reversal of the impairment recognized in respect thereof at each date of statement of financial position.

Research and development assets, the development of which has not been completed yet, are not amortized and are tested for impairment on an annual basis.

g. Financial assets:

1) Classification

The financial assets of the Company are classified into the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. The Company's management determines the classification of its financial assets at initial recognition.

a) Financial assets at fair value through profit or loss

This category includes financial assets that are managed and their performance is evaluated on a fair value basis. Thus, upon their initial recognition, these assets are designated by management at fair value through profit or loss. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as noncurrent.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date (for which they are classified as noncurrent assets). The loans and receivables of the Company are comprised of "receivables", "cash and cash equivalents" and "bank deposits" in the statement of financial position.

2) Recognition and measurement

Regular purchases and sales of financial assets are recognized on the trade date, which is the date on which the asset is delivered to the Company or delivered by the Company. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Financial assets measured at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in profit or loss. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are measured in subsequent periods at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are presented in the statement of comprehensive loss under "financial income or expenses".

h. Trade payables

Trade payables are obligations to pay for goods or services that have been acquired from suppliers in the ordinary course of business. Accounts payable are classified as current liabilities if payment is due within one year or less, otherwise they are presented as noncurrent liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

i. Share capital

The Company's ordinary shares are classified as the Company's share capital. Incremental costs directly attributed to issuance of new shares or warrants are presented under equity as a deduction from the proceeds of issuance.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

j. Employee benefits:

1) Pension and retirement benefit obligations:

In any matter related to payment of pension and severance pay to employees to be dismissed or to retire from the Company, the Company operates in accordance with labor laws.

Labor laws and agreements in Israel and the Company's practice require the Company to pay severance pay and/or pensions to employees dismissed or retiring from their employer in certain circumstances.

The Company has a severance pay plan in accordance with Section 14 of the Israeli Severance Pay Law with the plan handled as a defined contribution plan. According to the plan, the Company regularly makes payments to severance pay or pension funds without having a legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Contributions for severance pay or pension are recognized as employee benefit expenses when they are due commensurate with receipt of work services from the employee and no further provision is required in the financial statements.

2) Vacation and recreation pay

Under Israeli law, each employee is entitled to vacation days and recreation pay, both computed on an annual basis. The entitlement is based on the period of employment. The Company records a liability and an expense for vacation and recreation fees, based on the benefit accumulated for each employee.

k. Share-based payments

The Company operates a number of equity-settled, share-based compensation plans to employees (as defined in IFRS 2 "Share-Based Payments") and service providers. As part of the plans, the Company grants employees and service providers, from time to time and at its discretion, options to purchase Company shares. The fair value of the employee and service provider services received in exchange for the grant of the options is recognized as an expense in profit or loss and is carried to accumulated deficit under equity. The total amount recognized as an expense over the vesting period of the options (the period during which all vesting conditions are expected to be met) was determined as follows:

Share-based payments to employee by reference to the fair value of the options granted at date of grant.
Share-based payments to service providers by reference to the fair value of the service provided.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Company revises its estimates of the number of options that are expected to vest based on the nonmarket vesting conditions. The Company recognizes the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to accumulated deficit.

When exercising options, the Company issues new shares, with proceeds, less directly-attributable transaction costs, recognized as share capital (par value) and share premium.

l. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for providing rights to use the Company's intangible assets. Revenue is presented net of VAT, returns, credits and discounts.

Revenue is recognized when the amount of revenue can be reliably measured; it is probable that future economic benefits will flow to the Company and the stage of completion of a transaction as of the reporting period end can be measured reliably. The amount of revenue is not considered to be reliably measurable until all conditions associated with the transaction are settled.

m. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive loss on a straight-line basis over the period of the lease.

n. Loss per ordinary share

The computation of basic loss per share is based, as a general rule, on the Company's loss divided by the weighted average number of ordinary shares outstanding during the period.

In calculating the diluted loss per share, the Company adds to the average number of shares outstanding that was used to calculate the basic loss per share the weighted average of the number of shares to be issued assuming all shares that have a potentially dilutive effect have been exercised into shares.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

o. Deferred taxes

Deferred income tax is recognized, using the liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Since the Company is unable to assess whether it will have taxable income in the foreseeable future, no deferred tax assets were recorded in these financial statements.

p. Standards and interpretations to existing standards that are not yet in effect and have not been early adopted by the Company:

International Financial Reporting Standard No. 9 "Financial Instruments" (hereafter - IFRS 9)

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Company has yet to assess IFRS 9's full impact. The Company will also consider the impact of the remaining phases of IFRS 9 when completed by the International Accounting Standards Board.

NOTE 3 - CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes judgments and estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The material judgments, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are in respect of impairment of intangible assets:

The Company reviews once a year or when indications of impairment are present, whether research and development assets are impaired, see also note 2f.

The Company makes judgments to determine whether indications are present that require reviewing impairment of these intangible assets.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amounts of cash generating units are based on Company's estimates as to the development of the Drugs, changes in market scope, market competition and timetables for regulatory approvals.

NOTE 4 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT:

a. Financial risk management:

1) Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit and interest risks and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Risk management is performed by the Deputy Chief Executive Officer, Finance and Operations of the Company, who identifies and evaluates financial risks in close cooperation with the Company's Chief Executive Officer.

NOTE 4 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued):

The Company's finance department is responsible for carrying out risk management activities in accordance with policies approved by its Board of Directors. The Board of Directors provides guidelines for overall risk management, as well as policies dealing with specific areas, such as exchange rate risk, interest rate risk, credit risk, use of financial instruments, and investment of excess cash. In order to minimize the risk exposure to market risk and credit risk the Company invested the majority of its cash balances in highly-rated bank deposits with maturities of less than a year, and the remaining balance is invested in high rated marketable securities.

(a) Market risks

Foreign exchange risk - the Company might be exposed to foreign exchange risk as a result of making payments to employees or service providers and investment of some liquidity in currencies other than the U.S. dollar (i.e. the functional, reporting and presentation currency of the Company). The Company manages the foreign exchange risk by aligning the currencies for holding liquidity with the currencies of expected expenses, based on the expected cash flows of the Company. Had the Functional Currency of the Company been stronger by 5% against the NIS, assuming all other variables remained constant, the Company would have recognized an additional expense of $96 thousand, $74 thousand and $393 thousand in profit or loss for the years ended, December 31, 2013, 2012 and 2011 respectively.

Price risk - the Company is sometimes exposed to equity securities price risk because of investments held by the Company and classified on the statement of financial position as financial assets at fair value through profit or loss. To manage its price risk arising from investments in equity securities, the Company invests in marketable securities with high ratings and diversifies its investment portfolio.

Portfolio diversification is done based on risk level limits set by the Company.

(b) Credit and interest risks

Credit and interest risk arise from cash and cash equivalents, deposits with banks as well as accounts receivable. A substantial portion of liquid instruments of the Company are invested in short-term deposits in highly-rated banks. The Company estimates that since the liquid instruments are mainly invested for the short term and with highly-rated institutions, the credit and interest risk associated with these balances is immaterial.

(c) Liquidity risk

Prudent liquidity risk management requires maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities.

NOTE 4 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued):

Management monitors rolling forecasts of the Company's liquidity reserve (comprising cash and cash equivalents and deposits). This is generally carried out based on the expected cash flows in accordance with practice and limits set by the management of the Company.

The Company is in an R&D stage and has not yet generated significant revenue from the sale of drugs or royalties; it is therefore exposed to liquidity risk, taking into consideration the forecasts of cash flows required to finance its investments and other activities.

As of December 31, 2013 and 2012, the Company's financial liabilities include accounts payable and accrued expenses for period less than 1 year.

2) Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. It should be indicated that the Company is in the development stage and has not yet generated significant revenue from the sale of drugs or from royalties.

3) Fair value estimation

The following is an analysis of financial instruments measured at fair value using valuation methods. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3)

The fair value of financial instruments traded in active markets is based on quoted market prices at dates of statements of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. These instruments are included in level 1.

NOTE 4 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued):

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

As of December 31, 2013 and 2012, the financial instruments of the Company presented at fair value are financial assets at fair value through profit or loss in the amounts of $243 thousand and $1,065 thousand, respectively. Those instruments are classified as level 1.

b. Classification of financial instruments by groups:

	Assets at fair value through profit or loss	Loans and receivables	Total
	U.S. dollars in thousands		
As of December 31, 2013:			
Cash and cash equivalents	-	11,851	11,851
Bank deposits	-	100	100
Financial assets at fair value through profit or loss	243	-	243
Receivables (except prepaid expenses)	-	427	427
	243	12,378	12,621
As of December 31 ,2012:			
Cash and cash equivalents		16,814	16,814
Bank deposits		561	561
Financial assets at fair value through profit or loss	1,065		1,065
Receivables (except prepaid expenses)		84	84
	1,065	17,459	18,524

NOTE 4 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued):

c. Composition of financial instruments by currency:

	Dollar	Foreign currency (mainly NIS)	Total
	U.S. dollars in thousands		
As of December 31, 2013:			
Assets:			
Cash and cash equivalents	9,712	2,139	11,851
Bank deposits	-	100	100
Financial assets at fair value through profit or loss	-	243	243
Receivable (except prepaid expenses)	365	62	427
	10,077	2,544	12,621
Liabilities -			
accounts payable and accrued expenses	2,143	272	2,415
	7,934	2,272	10,206
As of December 31, 2012:			
Assets:			
Cash and cash equivalents	15,849	965	16,814
Bank deposits	473	88	561
Financial assets at fair value through profit or loss	-	1,065	1,065
Receivable (except prepaid expenses)	-	84	84
	16,322	2,202	18,524
Liabilities -			
accounts payable and accrued expenses	734	344	1,078
	15,588	1,858	17,446

NOTE 5 - CASH AND CASH EQUIVALENTS:

	December 31	
	2013	2012
	U.S. dollars in thousands	
Cash in bank	7,711	6,703
Short-term bank deposits	4,140	10,111
	11,851	16,814

The carrying amounts of the cash and cash equivalents approximate their fair values.

NOTE 6 - FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

These financial assets as of December 31, 2013 and 2012 represent a portfolio of Israeli, NIS-denominated marketable securities, which is managed and valued by the Company based on the fair value of all portfolio securities.

Taking into consideration the manner of management of the portfolio and the evaluation of its performances, the Company classified the entire investment in marketable securities as financial assets at fair value through profit or loss. The fair value of the securities is based on their exchange market price at the end of the reporting date trading day.

NOTE 7 - PREPAID EXPENSES AND RECEIVABLES:

	December 31	
	2013	2012
	U.S. dollars in thousands	
Prepaid expenses	61	114
Discount from Service Provider – see note 17b	363	-
Government institutions	62	81
Other	2	3
	488	198

The fair value of receivables, which constitute financial assets, approximates their carrying amount.

NOTE 8 - FIXED ASSETS:

The composition of assets and accumulated depreciation, grouped by major classifications:

	Cost		Accumulated depreciation		Depreciated balance	
	December 31		December 31		December 31	
	2013	2012	2013	2012	2013	2012
	U.S. dollars in thousands					
Office furniture and equipment (including computers)	84	70	36	22	48	48
Leasehold improvements	82	82	27	17	55	65
	166	152	63	39	103	113

NOTE 9 - INTANGIBLE ASSETS

The intangible assets represent R&D assets with respect to intellectual property rights of the Drugs purchased by the Company under licensing agreements or under asset acquisition agreements. The changes in those assets are as follows:

	Year ended December 31		
	2013	2012	2011
	U.S. dollars in thousands		
Cost:			
Balance at beginning of year	1,345	1,245	1,200
Additions during the year	210	100	45
Balance at end of year	1,555	1,345	1,245

For further details, see note 13.

As of December 31, 2013 the Company did not record impairment of these intangible assets.

NOTE 10 - LIABILITY FOR EMPLOYEE RIGHTS UPON RETIREMENT:

a. Labor laws and agreements in Israel require the Company to pay severance pay and/or pensions to an employee dismissed or retiring from their employment in certain circumstances.

b. The Company's pension liability and the Company's liability for payment of severance pay for employees in Israel for whom the liability is within the scope of Section 14 of the Severance Pay Law is covered by ongoing deposits with defined contribution plans. The amounts deposited are not included in the statements of financial position.

The amounts charged as an expense in respect of defined contribution plans in 2013, 2012 and 2011 were $62 thousand, $58 thousand and $51 thousand respectively. Of those amounts, approximately half were charged to general and administrative expenses and half to research and development expenses.

NOTE 11 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES:

	December 31	
	2013	2012
	U.S. dollars in thousands	
Trade payables	882	313
Expenses payable	1,263	571
Employees and employees institutions	205	150
Government institutions	65	44
	2,415	1,078

The fair value of the accounts payable and accrued expense balances approximates their carrying amounts.

NOTE 12 - ROYALTY OBLIGATIONS TO INVESTORS

As part of the mandatory convertible loan agreements with investors from August 2010, the investors were entitled to royalties equal to 5% of future revenue from two therapeutic candidates purchased by the Company.

On December 26, 2012, a General Shareholders Meeting of the Company approved the acquisition and settlement of the royalty rights granted to investors pursuant to the August 2010 mandatory convertible loan agreements in exchange for the issuance of an aggregate of 2,317,186 Company ordinary shares, with each investor entitled to receive a number of shares on a pro-rata basis in accordance with its respective royalty rights. The royalty obligation was presented as amortized cost.

On the date of the approval, the Company was relieved of its royalty obligations and the associated liability was derecognized. The fair value of the shares to be issued was $2,359 thousand. The increase, prior to settlement, in the royalty obligations amortized cost resulted primarily from interest accretion and from management's estimate with regard to future royalties. The excess between the fair value of the shares over the amortized cost of the liability as of the approval date was recorded on the statement of comprehensive loss under financial expenses. The shares were issued on January 10, 2013.

NOTE 13 - COMMITMENTS:

a. Agreements to purchase intellectual property of drugs:

1) On November 18, 2009, the Company entered into an agreement with a Danish company to provide the Company with the exclusive rights to a drug that treats congestive heart failure, left atrium dysfunction and high blood pressure. According to the agreement, the Company paid the Danish company an initial amount of $100 thousand, and later will transfer to the Danish company additional amounts of up to $700 thousand based on achieving regulatory milestones as agreed between the parties. Under the agreement, the Company agreed to pay the Danish company royalties at 30% of the Company's revenues generated by the drug, less specified amounts incurred in the 12 years from the date marketing begins, or until the patent expires, whichever is the earliest in each country where the drug will be marketed. According to the agreement, the Company will obtain exclusive global rights for completing development and for production, commercialization, marketing and selling the drug. Through December 31, 2013, the Company paid the Danish company $100 thousand.

2) On May 2, 2010, the Company entered into an agreement with a U.S. publically-traded company that grants the Company an exclusive license to use rights relating to a drug that treats chemotherapy, radiation and surgery-induced nausea and vomiting. Under the agreement, the Company paid the U.S. company an initial amount of $100 thousand, and will later pay the U.S. company an amount of up to $500 thousand, based on regulatory milestones set between the parties. Under the agreement, the Company agreed to pay the U.S. company royalties equal to 8% of Company revenues from selling the drug, less certain amounts as detailed in the agreement, during a period which is the shorter of: (1) expiry of the last patent granted under the license; (2) ten years from the beginning of marketing the drug by the Company or any third party; and (3) the date in which the amount of all payments to the U.S. company reach $30 million. Through December 31, 2013, the Company paid $100 thousand to the U.S. company.

   In 2013, the U.S. company announced that it had ceased business operations. Under the terms of the license agreement, the Company has the protection afforded to the licensee under the United States Bankruptcy Code. The Company is currently assessing the expected effect, if any, on its future commitments. The Company is taking active steps to safeguard its rights however there is no guarantee the Company will be able to safeguard its rights under the license agreement.

3) On August 26, 2010, the Company entered into an agreement with a Canadian-based company which is traded in the U.S. and Canada, to co-develop a drug for the treatment of migraines. Under the agreement, the Company paid the Canadian company an initial amount of $500 thousand on the date of signing the agreement, and later will transfer additional amounts of up to $800 thousand based on achieving milestones as agreed between the parties. In addition, the Company will participate in additional drug research and development costs.

NOTE 13 - COMMITMENTS (continued):

Under the agreement, the Company will pay a 60% royalty to the Canadian company for the first $2 million in revenue. For revenues beyond the $2 million, the Company will pay royalties at 20% - 40% of the Company's income from the drug. The agreement is for an indefinite period.

Through December 31, 2012, the Company paid the Canadian Company for the license of the drug under the agreement a total of approximately $800 thousand. In addition, through December 31, 2013, the Company participated in the drug research and development costs in the amount of $1.1 million that was recorded in the statements of comprehensive loss under research and development expenses.

4) On August 11, 2010, the Company entered into an agreement with an Australian company listed on the Australian stock exchange in an asset purchase agreement to acquire intellectual property of the Australian company relating to three therapeutic candidates for the treatment of intestinal and digestion conditions. Under the purchase agreement, the Company paid the Australian company an initial amount of $500 thousand and later another payment in the range of 7% - 20% of Company revenues from the sale of the drugs. Through December 31, 2013, the Company paid the Australian company a total of $500 thousand.

5) On September 18, 2011, the Company entered into an agreement with a U.S. academic institution (hereinafter – "the Academic Institution") to acquire exclusive rights to a diagnostic test (hereinafter – the "Test") for certain bacteria relatively prevalent among patients of a certain condition of the intestines and digestive tract.

Under the agreement, in addition to an initial payment of $45 thousand, the Company will pay the Academic Institution royalties in the range of 7% - 20% of the amount received by the Company from revenues resulting from rights to the Test and other potential payments in immaterial amounts. Through December 31, 2013, the Company paid the Academic Institution a total amount of $55 thousand.

The acquisition of rights was intended to allow the Company to screen patients for clinical trials and, in the future, may be used commercially, if and when approved for marketing, in combination with treatment with one of the drugs that was purchased from the Australian company.

b. Operating lease agreement

The Company entered into an operating lease agreement for the offices it uses. The agreement will expire on January 31, 2017 (hereafter “date of end of rental period”) with an option to extend the rental period by an additional 3 years. The projected rental payments until the end of the rental period, at rates in effect at December 31, 2013, are $210 thousand per year.

As of December 31, 2013 an amount of $81 thousand was deposited with a bank to secure the lease payments.

NOTE 14 - INCOME TAX:

a. Measurement of results for tax purposes

The Company elected to compute its taxable income in accordance with Income Tax Regulations (Rules for Accounting for Foreign Investors Companies and Certain Partnerships and Setting their Taxable Income), 1986. Accordingly, the Company's taxable income or loss is calculated in U.S. dollars.

The results of the Company are measured for tax purposes in accordance with Accounting Principles Generally Accepted in Israel (Israeli GAAP). These financial statements are prepared in accordance with IFRS. The difference between IFRS and Israeli GAAP, both on an annual and a cumulative basis causes a difference between taxable results and the results reflected in these financial statements.

b. Tax rates

The income of the Company is subject to corporate tax rate. Israeli corporate tax rate for 2013 and 2012 was 25%.

On August 5, 2013, the Law of Change in National Priorities (Legislative Achieve Budget for the Years 2013 and 2014), 2013, was published, which provided, inter alia, raising the corporate tax rate to a rate of 26.5% from 2014 and thereafter.

c. Carry forward losses

The balance of carry forward losses as of December 31, 2013 is $17 million. These tax carry forward losses have no expiration date.
Deferred tax assets on losses for tax purposes carried forward to subsequent years are recognized if utilization of the related tax benefit against a future taxable income is expected. The Company has not created deferred taxes on its carry forward losses since their utilization is not expected in the foreseeable future.

d. Deductible temporary differences

The amount of cumulative deductible temporary differences, other than carry forward losses (as mentioned in c. above), for which deferred tax assets have not been recognized in the statement of financial position as of December 31, 2013 and 2012, were $8 million and $4.5 million, respectively. These temporary differences have no expiration dates.

e. Tax assessments

The Company has not been assessed for tax purposes since its incorporation.

NOTE 15 - EQUITY:

a. Share capital:

1) Composition

Company share capital is composed of ordinary shares of NIS 0.01 par value, as follows:

	Number of shares	
	December 31	
	2013	2012
	In thousands	
Authorized	200,000	100,000
Issued and paid	64,400	52,990

The Company's ordinary shares are traded on the TASE and the Company's ADSs are traded on the NASDAQ under the symbols "RDHL." Each ADS represents 10 ordinary shares. The last reported market price for the Company's securities on December 31, 2013 was $11.80 per ADS on the NASDAQ and $1.11 per share on the TASE (based on the exchange rate reported by the Bank of Israel for such date).

2) Changes in share capital

On July 31, 2013, a general meeting of shareholders approved the increase of the authorized share capital of the Company to NIS 2 million, divided into 200,000,000 ordinary shares, NIS 0.01 par value per share.

3) Conversion of mandatory convertible loans

In February 2011, all of the mandatory convertible loans raised from investors in August and November 2010, were automatically converted into 19,818,314 Company ordinary shares and to warrants, based on their terms, just prior to the Company's Initial Public Offering on the TASE.

Through November 2013, the Company received notifications on the exercise of the above warrants that had been granted to investors. In 2011, the Company issued 803,667 ordinary shares for $0.6 million, net of issuance costs. In 2013, the Company issued 2,550,865 ordinary shares for $2.2 million, net of direct issuance costs. The remaining 629,995 unexercised warrants expired along with any right or claim whatsoever of the holder.

NOTE 15 - EQUITY (continued)**:**

4) Public offering

On February 3, 2011, the Company completed a public offering of securities on the TASE under a prospectus dated February 2, 2011. As part of the offering, the Company issued 14,302,300 ordinary shares and 7,151,150 warrants (Series 1). Issuance proceeds (gross) amounted to $14 million, less direct issuance costs of $1.3 million, thereby amounting to $12.7 million.

5) Exercise of options

During 2012, the Company received notifications on the exercise of the 600,000 non-tradable options issued to service providers and notifications on the exercise of 70,000 options that were issued to a consultant in August 2010. Accordingly, the Company issued 670,000 ordinary shares for $302 thousand.

During 2013, the Company received notifications of exercise with respect to options that had been issued to a consultant in August 2010 and in February 2011. Accordingly, the Company issued 60,000 ordinary shares for $13 thousand.

6) In December 2012, the Company entered into investment agreements with a group of investors for the issuance of 6,481,280 ordinary shares and 3,240,640 warrants exercisable into ordinary shares in consideration of an aggregate investment amount of approximately $6.56 million. Through December 31, 2012, the Company received with respect to the investment agreements a total of approximately $6.25 million, net of direct issuance cost of $212 thousand. This amount was allocated to ordinary shares to be issued and warrants based on their fair value. The ordinary shares and warrants were issued on January 10, 2013. For information regarding the terms of the warrants, see b(2) below.

b. Warrants:

1) The warrants (Series 1) issued as part of the Company initial public offering on the TASE were exercisable from issuance through February 2, 2014. Through February 2014 the Company received notifications on the exercise of the warrants (Series 1) for exercise price per ordinary share of $1.25. Accordingly, in February 2014, the Company issued 3,246,082 ordinary shares for $4 million, net of issuance costs. The remaining 3,905,068 unexercised warrants (Series 1) expired along with any right or claim whatsoever of the holder.

2) The warrants issued under the investment agreement, as described in a(6) above, are exercisable into 3,240,640 ordinary shares, for a period of 24 months. As of December 31, 2013 the exercise price of each warrant ranges from $1.34 to $1.54, depending on the date of exercise.

NOTE 15 - EQUITY (continued)**:**

Through February 24, 2014, the Company received notifications of exercise with respect to the warrants at an exercise price per ordinary share of $1.34. Accordingly, in January 2014, the Company issued 336,400 ordinary shares for $437 thousand, net of issuance costs. The current exercise price of the remaining 2,904,240 outstanding warrants is $1.54 per ordinary share.

NOTE 16 - SHARE-BASED PAYMENTS

On May 30, 2010, a general meeting of shareholders approved the option plan of the Company for 2010 (the "Option Plan"), after being approved by the Board of Directors resolved in 2010 and 2011 to increase the Option Plan, the Company is allowed to allocate 22,080,000 options to employees and directors. The terms and conditions of the grants were determined by the Board of Directors and are according to the Option Plan.

In addition, in 2010 and 2011, the Company's Board of Directors approved grants of 600,000 options to Company service providers beyond the scope of the Company's Option Plan.

a. Following is information on options granted in 2013:

	Number of options granted				
	According to Option Plan of the Company			Exercise price to 1 ordinary share ($)	The fair value of options on date of grant in $U.S. thousands (2)
Date of Grant	Other than directors (1)	To directors (1)	Total		
May 2013	1,930,000	-	1,930,000	1.12	1,104
July 2013	* 550,000	300,000	850,000	1.12	445
	2,480,000	300,000	2,780,000		1,549

* The options were allocated to officers who also serve as directors.

1) The options will vest as follows: for employees and consultants of the Company who had provided services to the Company for a period exceeding one year as of the date of grant, the options will vest in 16 equal quarterly installments over a four-year period. For employees and consultants of the Company who provided services to the Company for a period of less than one year as of the date of grant, the options will vest as follows: 1/4 of the options will vest one year following the grant date, and the rest over the following three years in 12 equal quarterly installments.

NOTE 16 - SHARE-BASED PAYMENTS (continued):

2) The fair value of all options on the date of grant was U.S. $1.5 million. The fair value of the options was computed using the binomial model and the underlying data used was mainly the following: price of the Company's ordinary share: $0.98- $1.067, expected volatility: 66.08%-66.55%, risk-free interest rate: 1.4%-1.95% and expected useful life to exercise: seven years.

b. Options granted in 2012:

	Number of options granted				
	According to Option Plan of the Company				
Date of grant	Other than directors (1)	To directors (1)	Total	Exercise price to 1 ordinary share ($)	The fair value of options on date of grant in $U.S. thousands (2)
January 2012	825,000	-	825,000	0.72	289
February 2012	*1,000,000	-	1,000,000	0.72	271
June 2012	200,000	-	200,000	0.70	75
	2,025,000	-	2,025,000		635

*The options were allocated to officers who also serve as directors.

1) The options will vest as follows: In the first year, 1/3 of the options after one year from the date of grant, or 1/6 of the total number of options at the end of each calendar half year. In the second and third years, 1/6 of the remaining options at the end of each calendar half year or 6-month period.

2) The fair value of the options on the date of grant was computed using the binomial model. The underlying data used for computing the fair value of the options are mainly as follows: ordinary share price, based on share price in the public offering: $0.52-$0.675, expected volatility: 67.53%-68.49%, risk-free interest rate: 1.06%-1.43% (the risk-free interest rate is determined based on rates of return on maturity of unlinked U.S. treasury bonds with time to maturity that equals the average life of the options); expected dividend at $0 and expected life to exercise of 7 years.

NOTE 16 - SHARE-BASED PAYMENTS (continued):

c. Changes in the number of shares and weighted averages of exercise prices are as follows:

	Year ended December 31			
	2013		2012	
	Number of options	Weighted average of exercise price	Number of options	Weighted average of exercise price
Outstanding at beginning of year	12,015,000	0.47	10,660,000	0.43
Exercised	(60,000)		(670,000)	
Granted	2,780,000	1.12	2,025,000	0.72
Outstanding at end of year	14,735,000	0.60	12,015,000	0.47
Exercisable at end of year	11,596,667	0.49	7,816,667	0.38

d. The following is information about exercise price and remaining useful life of outstanding options at year-end:

December 31, 2013			December 31, 2012		
Number of options outstanding at end of year	Exercise price range	Weighted average of remaining useful life	Number of options outstanding at end of year	Exercise price range	Weighted average of remaining useful life
14,735,000	0.17-1.12	4.58	12,015,000	0.17-1.05	5.03

e. Expenses recognized in profit or loss for the options are as follows:

Year ended December 31		
2013	2012	2011
U.S. dollars in thousands		
1,255	1,648	2,863

The remaining compensation expenses as of December 31, 2013 are $915 thousand and will be expensed in full by March 2017.

The options granted to Company employees in Israel are governed by relevant rules in Section 102 to the Israel Income Tax Ordinance (hereinafter the "Ordinance"). According to the treatment elected by the Company and these rules, the Company is not entitled to claim as tax deductions the amounts charged to employees as a benefit, including amounts recognized as payroll benefits in Company accounts for the options the employees received within the Option Plan.

Options granted to option holders who are related parties of the Company are governed by Section 3(i) to the Ordinance.

NOTE 17 - RESEARCH AND DEVELOPMENT EXPENSES, net:

a.

	Year ended December 31		
	2013	**2012**	**2011**
	U.S. dollars in thousands		
Payroll and related expenses	426	529	468
Professional services	1,272	933	698
Share-based payments	753	862	1,384
Clinical trials	6,019	3,620	2,463
Patents expenses	233	240	193
Other	363	271	208
Discount from Service Provider, see b. below	(966)	-	-
	8,100	6,455	5,414

b. In 2013, the Company received notification from its Canadian service provider ("Service Provider") that the Canadian authorities successfully completed their review of the Service Provider's request for certain incentive cash benefits related to research and development activities provided by the Service Provider for the Company. In 2013, the Service Provider received the requested benefits from the Canadian authorities, and subsequently the Company received a discount from the Service Provider for research and development services provided from 2011 through February 2013 in the amount of $603 thousand.

As of December 31, 2013 the Company expects to receive an additional discount of $363 thousand in respect of research and development services provided by the Service Provider from March 2013 through December 31, 2013.

NOTE 18 - GENERAL AND ADMINISTRATIVE EXPENSES:

	Year ended December 31		
	2013	**2012**	**2011**
	U.S. dollars in thousands		
Payroll and related expenses	754	517	467
Share-based payments	501	787	1,479
Professional services	997	879	301
Office related expenses	131	122	103
Other	301	296	132
	2,684	2,601	2,482

NOTE 19 - FINANCIAL EXPENSES (INCOME), net:

	Year ended December 31		
	2013	2012	2011
	U.S dollars in thousands		
Financial income:			
Fair value gain on financial assets at fair value through profit or loss	54	57	-
Income from changes in exchange rates	74	21	556
Other	30	119	14
	158	197	570
Financial expenses:			
Fair value losses on mandatory convertible loans	-	-	7,938
Accretion and settlement of royalty obligations to investors	-	1,473	168
Fair value losses on financial assets at fair value through profit or loss	-	-	29
Other	14	10	65
	14	1,483	8,200
Financial expenses (income) – net	(144)	1,286	7,630

NOTE 20 - LOSS PER ORDINARY SHARE

The basic loss per share is computed by dividing the Company's loss by the weighted average number of ordinary shares outstanding during the period.
The diluted loss per share is identical to the basic loss per share since the effect of potential dilutive shares in anti-dilutive.

Set forth below are data taken into account in the computation of loss per share:

	Year ended December 31		
	2013	2012	2011
Loss as reported in the financial statements (in thousands of dollars)	10,628	10,326	15,503
Weighted average of ordinary shares outstanding during the period (in thousands)	62,379	52,595	48,087
Basic and diluted loss per share (dollars)	0.17	0.20	0.32

NOTE 21 - RELATED PARTIES:

a. Key management includes members of the Board of Directors, the Chief Executive Officer and Deputy Chief Executive Officer, Finance and Operations.

	Year ended December 31		
	2013	2012	2011
	U.S. dollars in thousands		
Key management compensation:			
Salaries and other short-term employee benefits	555	373	467
Post-employment benefits	48	44	48
Share-based payments	515	974	1,814
Other long-term benefits	25	22	25
Transactions with key management:			
Accretion and settlement of royalty obligations to investors	-	637	73
Fair value on mandatory convertible loans	-	-	1,697

b. Balances with related parties:

	December 31	
	2013	2012
	U.S. dollars in thousand	
Current liabilities -		
credit balance in "accounts payable"	146	131

NOTE 22 - EVENTS SUBSEQUENT TO DECEMBER 31, 2013:

a. In January 2014, the Company raised aggregate gross amount of $8.5 million from two new investors in the form of private placements of ADSs and warrants.

The Company issued a total of 894,740 ADSs and warrants to purchase 357,896 ADSs at a purchase price of $9.50 per unit of one ADS and 0.4 warrants (the “Unit”). The warrants have a three-year term and may be exercised either for cash or on a cashless basis at an exercise price of $11.00 per ADS. In addition, if the Company issues new securities at a price per unit which is less than $9.50 (such lower price, the "Subsequent Offering Price"), the Company will issue to the investors a number of additional ADSs as necessary to reduce the effective price per Unit to the Subsequent Offering Price. If ordinary shares and/or ADSs are offered with any other rights, the Subsequent Offering Price will be calculated for each unit in such offering, consisting of one ordinary share (or ADS) plus the number of other rights per share in such offering. This provision applies until the Company raises a certain threshold of capital. The threshold is $28 million in the agreement with the first investor and $25.5 million in the agreement with the second investor signed one day later.

NOTE 22 - EVENTS SUBSEQUENT TO DECEMBER 31, 2013 (continued):

b. In January 2014, the Company raised an aggregate gross amount of $11.7 million from a select group of new investors (hereafter the "Group") in the form of a private placement. The Company issued to the Group a total of 10,458,740 ordinary shares and warrants to purchase a total of 4,183,496 ordinary shares, which have a three-year term and are exercisable at a an exercise price of $1.4 per ordinary share.

EXHIBIT INDEX

The exhibits filed with or incorporated into this Registration Statement are listed in the index of exhibits below

Exhibit Number	Exhibit Description
1.1	Articles of Association of the Registrant, as amended (unofficial English translation).
2.1	Form of Deposit Agreement among the Registrant, the Bank of New York Mellon, as Depositary, and all Owners and Holders from time to time of American Depositary Shares issued hereunder (incorporated by reference to Exhibit 1 to the Registration Statement on Form F-6 filed by The Bank of New York Mellon with the Securities and Exchange Commission on December 6, 2012).
2.2	Form of American Depositary Receipt (incorporated by reference to Exhibit 1 to the Registration Statement on Form F-6 filed by The Bank of New York Mellon with the Securities and Exchange Commission on December 6, 2012).
4.1†	Exclusive License Agreement, dated November 18, 2009, by and between the Registrant and Egalet a/s (RHB-101) (incorporated by reference to Exhibit 4.1 to Draft Registration Statement on Form DRS disseminated with the Securities and Exchange Commission, dated December 3, 2012).
4.2	Exclusive License Agreement, dated May 2, 2010, by and between the Registrant and SCOLR Pharma Inc. (RHB-102) (incorporated by reference to Exhibit 4.2 to Draft Registration Statement on Form DRS disseminated with the Securities and Exchange Commission, dated October 26, 2012).
4.3†	Co- Development and Commercialization Agreement, dated August 26, 2010, by and between the Registrant and IntelGenx Corp. (incorporated by reference to Exhibit 4.3 to Draft Registration Statement on Form DRS disseminated with the Securities and Exchange Commission, dated December 3, 2012).
4.4†	Side Letter Agreement, dated January 31, 2013, by and between the Registrant and IntelGenx Corp.
4.5†	Asset Purchase Agreement, dated August 11, 2010, by and between the Registrant and Giaconda Limited (RHB-104, 105, 106) (incorporated by reference to Exhibit 4.4 to Draft Registration Statement on Form DRS disseminated with the Securities and Exchange Commission, dated December 3, 2012).
4.6†	License Agreement, dated September 15, 2011, by and between the Registrant and University of Central Florida Research Foundation (incorporated by reference to Exhibit 4.5 to Draft Registration Statement on Form DRS disseminated with the Securities and Exchange Commission, dated October 26, 2012).
4.7	Independent Consulting Agreement, dated as of August 23, 2010, by and between the Registrant and R.E. Investments (incorporated by reference to Exhibit 4.8 to Draft Registration Statement on Form DRS disseminated with the Securities and Exchange Commission, dated October 26, 2012).
4.8†	Master Service Agreement, dated April 28, 2011, by and between the Registrant and 7810962 Canada Inc. and amendment (incorporated by reference to Exhibit 4.12 to Draft Registration Statement on Form DRS disseminated with the Securities and Exchange Commission, dated October 26, 2012).
4.9†	Second Amendment to Master Services Agreement, dated May 29, 2013 by and between the Registrant and 7810962 Canada Inc.

4.10†	Manufacturing Agreement, dated April 28, 2011, by and between 7810962 Canada Inc. and the Registrant (regarding RHB-104) and amendments (incorporated by reference to Exhibit 4.13 to Draft Registration Statement on Form DRS disseminated with the Securities and Exchange Commission, dated December 3, 2012).
4.11†	Manufacturing Agreement, dated October 21, 2012, by and between 7810962 Canada Inc. and the Registrant (regarding RHB-104) (incorporated by reference to Exhibit 4.14 to Draft Registration Statement on Form DRS disseminated with the Securities and Exchange Commission, dated October 26, 2012).
4.12†	Clinical Services Agreement, dated June 15, 2011, by and between RedHill and 7810962 Canada Inc. and amendment (regarding RHB-104) (incorporated by reference to Exhibit 4.15 to Draft Registration Statement on Form DRS disseminated with the Securities and Exchange Commission, dated December 3, 2012).
4.13†	Second Amendment to Clinical Services Agreement, dated January 19, 2014, by and between the Registrant and 7810962 Canada Inc.
4.14	Form of Letter of Exemption and Indemnity adopted on July 2013 (unofficial English translation) (incorporated by reference to Exhibit B to Exhibit 99.1 to Form 6-K disseminated with the Securities and Exchange Commission, dated June 26, 2013).
4.15	2010 Stock Option Plan, as amended.
4.16	Form of Share Purchase Agreement, dated November 26, 2012 by and between the Registrant and each of the investors (incorporated by reference to Exhibit 4.19 to Draft Registration Statement on Form DRS disseminated with the Securities and Exchange Commission, dated December 18, 2012).
4.17	Securities Purchase Agreement, dated December 30, 2013 by and between the Registrant and OrbiMed Israel Partners Limited Partnership (together with Form of Warrant attached as Exhibit A).
4.18	Securities Purchase Agreement, dated December 31, 2013 by and between the Registrant and Broadfin Healthcare Master Fund, LTD (together with Form of Warrant attached as Exhibit A).
4.19	Form of Share Purchase Agreement, dated January 13, 2014 by and between the Registrant and each of the investors (together with Form of Warrant attached as Exhibit A) (unofficial English translation).
12.1	Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
12.2	Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
13	Certification by Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
15.1	Consent of Independent Registered Public Accounting Firm.

† Portions of this exhibit have been omitted and filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request.

SIGNATURE

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

REDHILL BIOPHARMA LTD

By: /s/ Dror Ben-Asher
Name: Dror Ben-Asher
Title: Chief Executive Officer and Chairman of the Board of Directors

By: /s/ Ori Shilo
Name: Ori Shilo
Title: Deputy Chief Executive Officer, Finance and Operations

Date: February 24, 2014

Exhibit 1.1

These Articles of Association are an unofficial translation of the Articles of Association in Hebrew adopted by the Company.

The Articles of Association will take effect upon the public issuance of the Company

Articles of Association

of

Redhill Biopharma Ltd.
("Company")

Table of Contents

1. Introduction

1.1 In these Articles, each of the terms set forth below shall have the meaning set forth opposite it:

Law -	The provisions of any law applicable in the State of Israel.
Administrative Proceeding -	A proceeding pursuant to Chapter H3 (Imposing Monetary Sanction by the ISA), H4 (Imposing Administrative Enforcement Measures by the Administrative Enforcement Committee) and/or I1 (Conditioned Arrangement for Avoidance of Taking Action of for Stopping Action) of the Securities Law, as amended from time to time
The Companies Law -	The Companies Law, 5759 – 1999; or any provision of law superseding same.
The Securities Law -	The Securities Law, 5728 – 1968; or any provision of law superseding same.
Business Day -	A day on which most of the banks in Israel are open for the performance of transactions.
Writing -	Print and any other form of imprinting words including documents transmitted in writing via facsimile, by telegraph, telex, email, computer or in any other electronic means of communication, creating or allowing the creation of any copy and/or printed output of the document.
Securities -	As defined in Section 1 of the Securities Law.
Incapacitated -	A person declared incapacitated pursuant to the Legal Capacity and Guardianship Law, 5722 – 1962.
Companies Ordinance -	The Companies Ordinance [New Version], 5743 – 1983, or any provision of law superseding same.
Simple Majority -	A majority of over one half of the votes of the shareholders entitled to vote who have voted in person or by proxy or by means of a voting paper, other than abstainees.
A majority of 75% -	A majority of 75% or more of the votes of the shareholders entitled to vote who have voted in person or by proxy or by means of a voting paper, other than abstainees.
Articles of Association -	The Company's articles of association as per the wording herein or as duly modified, from time to time, either expressly or under any law.
The Companies Regulations -	Regulations enacted by virtue of the Companies Law and/or by virtue of the Companies Ordinance.
Securities Regulations -	Regulations enacted by virtue of the Securities Law.
Related Corporation -	A corporation controlling the Company directly and/or indirectly and/or any corporation directly and/or indirectly controlled by such corporation and/or any corporation controlled by the Company, directly and/or indirectly.

1.2 In these Articles, reference to any organ or officeholder is to organs or officeholders of the company.

1.3 The provisions of sections 3-10 of the Interpretation Law, 5741 – 1981, shall also apply, *mutatis mutandis*, to the interpretation of these Articles, where there is no other provision in respect of such matter and where such matter or the context thereof, contain nothing which does not comply with such applicability.

Save for the provisions of this Article, any word or term in these Articles shall have the meaning imparted to them in the Companies Law, and where there is no such meaning in the Companies Law, then the meaning imparted to them in the Companies Regulations, and where there is no such meaning, then the meaning imparted to them in the Securities Law, and where there is no such meaning, then the meaning imparted to them in the Securities Regulations and where there is no such meaning, then the meaning imparted to them in any other law, all where the meaning imparted as aforesaid is not in conflict with the context where such word or expression appears or with the purpose of the relevant provision in these Articles.

In case of reference in these Articles to a provision of law, and such provision has been revised or revoked, such provision shall be deemed valid and as though it were part of the Articles, unless in consequence of such revision or cancellation, such provision has no effect.

The provisions of these Articles are designed to add to and contract out the provisions stipulated in the Companies Law. In the event that any of the provisions of these Articles is in contravention of that permitted under law, the provisions of these Articles shall be interpreted to the extent possible in accordance with the provisions of the law.

2. **A Public Company**

The Company is a public company.

3. **Donations**

The Company may make donations, even if the donation is not made as part of commercial considerations.

4. **Company's Objectives**

The Company shall engage in any lawful business.

5. **Limitation of Liability**

The liability of the shareholders of the Company is limited, each of them to full payment of the amount that he has undertaken to pay for the shares allocated to him at the time of the allocation.

6. **Amendments to the Articles of Association**

The Company may amend any of the provisions of these Articles or substitute these Articles for other Articles, by means of a resolution passed by the a simple majority at a general meeting, apart from the provisions of Sub-Articles 14.1, 14.2, 19.1 and 19.2 herein, the amendment or replacement of which is subject to a resolution to be passed by a majority of 75% at a general meeting.

Chapter Two - The Share Capital of the Company

7. **Share Capital**.[1]

7.1 The Company's registered share capital is NIS _____, divided into _____ registered Ordinary Shares of NIS 0.01 par value each (hereinafter: "**share", "ordinary share", "shares" or "ordinary shares",** as the case may be). Each share confers a right to receive invitations to participate in and vote at the general meetings. A shareholder shall have one vote for every fully paid up share that he holds. All Shares have equal rights *inter se* with respect to dividend, distribution of bonus shares or any other distribution, capital refund and participation in distribution of surplus of Company assets upon liquidation.

7.2 The provisions of these Articles in relation to shares, shall also apply, *mutatis mutandis*, to other securities to be issued by the Company.

8. **Issuance of Shares and Other Securities**

8.1 No Priority Right - the existing shareholders of the Company shall not have a priority right, a right of preference, or any other right whatsoever to acquire the Company's securities. The board of directors may, at its exclusive discretion, first offer the Company's securities to all or any of the current shareholders.

8.2 Redeemable Securities

The Company may issue redeemable securities, with rights attached to them and subject to such terms and conditions as shall be prescribed by the board of directors.

8.3 Commissions - the Company may pay any person a commission (including underwriting fees) in consideration of underwriting services, marketing or distribution of the Company's securities, either conditionally or unconditionally, on such terms and conditions as shall be prescribed by the board of directors. Payment as aforementioned in this Article can be made either in cash or in securities of the Company, or some of them in one way and some of them in another way.

[1] Subject to the provisions of Section 46.B. of the Securities Law, pursuant to which so long as the Company's shares are listed for trading on the Stock Exchange, the Company's share capital will consist of one class of shares.

8.4 The board of directors may introduce distinctions between holders of the Company's securities in relation to the terms and conditions of allocation of the Company's securities and the rights attached to such securities and may also vary such terms and conditions, including waiving some of them. The board of directors may further issue calls to the holders of securities for payment of the money that has not yet been paid for the securities held by them.

8.5 Any payment on account of a share shall be credited initially on account of the nominal value and only then on account of the premium for each share, unless otherwise prescribed in the terms of the allocation.

8.6 A shareholder will not be entitled to his rights as a shareholder, including to a dividend, unless he has paid the amounts in full in accordance with the terms of the allocation, with the addition of interest, linkage and expenses, if there were any, and all if not otherwise prescribed in the terms of the allocation.

8.7 The board of directors may forfeit as well as sell, re-allocate or otherwise transfer any security as it shall decide, in respect of which the full consideration has not been paid, including for nil consideration.

8.8 The forfeiture of a security shall result, at the time of such forfeiture, in the revocation of any right in the Company and any claim or demand against it in relation to such security, except for such rights and obligations as are excluded from this rule in accordance with these Articles or which the law confers on or imposes on a former shareholder.

9. **The Register of Shareholders of the Company and Issue of Share Certificates**

9.1 The secretary of the Company or whoever is appointed for such purpose by the board of directors of the Company shall be responsible for keeping a Register of the Company's Shareholders. A shareholder is entitled to receive from the Company, free of charge, within two months after the allocation or the registration of the transfer (unless the terms of the issue stipulate another period of time), one certificate or a number of certificates, at the Company's discretion, in respect of all the shares that are registered in his name, which shall specify the number of shares, and any other detail that is important in the opinion of the board of directors. In the event of a jointly held share, the Company shall not be required to issue more than one certificate to all the joint holders, and delivery of such a certificate to one of the joint holders shall be deemed to be delivery to all of them.

9.2 The board of directors may close the register of shareholders for a total period of up to 30 days annually.

9.3 Every certificate shall bear the seal or stamp of the Company or its printed name and shall bear the signature of one director and the Company secretary, or of two directors or of any other person who has been appointed by the board of directors for such purpose.

9.4 The Company may issue a new certificate *in lieu of* a certificate that was issued and was lost, defaced, or destroyed, on the basis of such proof and guarantees as the Company may require, and after payment of an amount that shall be prescribed by the board of directors and the Company may also, in accordance with a resolution of the board of directors, replace existing certificates with new certificates free of charge subject to such conditions as the board of directors shall stipulate.

9.5 Where two or more persons are registered as the joint holders of a share, each of them may confirm receipt of a dividend or other payments for such share and his confirmation will bind all holders of such share.

9.6 The Company is entitled to recognize a holder of a share as a trustee and to issue a share certificate in the name of the trustee provided that the trustee has notified the Company of the identity of the beneficiary of the trust. The Company will not be bound to or be required to, recognize a right that is based on the rules of equity or a right that is subject to a condition, or a future right or a partial right to a share, or any other right in relation to a share, other than the absolute right of the registered holder in respect of any share, unless this is done on the basis of a judicial decision or in accordance with the requirements of any law.

10. **Transfer of the Company's Shares**[2]

10.1 The Company shares are transferable.

10.2 No transfer will be registered of shares that are registered in the register of shareholders in the name of a registered shareholder, unless an original, signed deed of transfer of the shares has been submitted to the Company (hereinafter: "**deed of transfer"**), unless otherwise stipulated by the board of directors of the Company. The deed of transfer shall be drawn up in the form set out hereunder or in such other format as is as similar as possible to it or in another format which shall be approved by the board of directors.

Deed of Transfer

I, _____ Identity Card No. / Corporate No. _____ (hereinafter: "**the transferor**") of _____ hereby transfer to _____ Identity Card No. / Corporate No. _____ (hereinafter: "**the transferee**") of _____ in consideration of the sum of NIS _____ that he has paid to me, _____ shares, each having a nominal value of NIS _____, which are marked by the numbers _____ to _____ inclusive, of _____Ltd. (hereinafter: "**the Company**"), and they shall be in the possession of the transferee, his estate administrators, guardians, and his duly authorized representatives, in accordance with the conditions under which I personally held the shares at the time of signature of this deed, and I, the transferee, agree to accept the said shares in accordance with the conditions set out above and subject to the Company 's Articles, such as they are from time to time.

In Witness Whereof we have signed, this __ day of the month of _____, in the year _____

Transferor -
Name: _____
Signature: _____

Transferee
Name: _____
Signature: _____

Witness to the Transferor's Signature:
Name: _____, Advocate
Signature: _____

Witness to the Transferee's Signature:
Name: _____, Advocate
Signature: _____

Neither a transfer of non-fully paid up shares or of shares over which the Company has a lien or a charge shall be valid unless it has been approved by the board of directors, which may, at its absolute discretion and without giving any reasons, refuse to register such a transfer.

The board of directors may refuse a transfer of shares as aforesaid and the board of directors may also make such a transfer of shares conditional on an undertaking by the transferee, in such scope and in such manner as the board of directors shall stipulate, or settle the transferor's liabilities in respect of such shares or the liabilities in respect of which the Company has a lien or a charge over such shares.

10.3 The transferor shall continue to be deemed to be the holder of the shares being transferred until such time as the name of the transferee is registered in the Company's register of shareholders.

10.4 A deed of transfer shall be submitted to the registered office of the Company for registration together with the certificates of registration of the shares that are about to be transferred (if such certificates have been issued) and any other proof which the Company shall require as to the title of the transferor to such shares or his right to transfer them.

10.5 A joint shareholder who wishes to transfer his right in a share but is not in possession of the share certificate, will not be bound to attach the share certificate to the transfer deed provided that in the transfer deed it is stated that the transferor is not in possession of the share certificate in respect of the share in which his right is being transferred and that the share being transferred is held jointly with others, together with their particulars.

10.6 The Company may require payment of a fee for registration of the transfer of such an amount or at such rate as the board of directors shall determine from time to time.

10.7 Upon the death of a holder of shares in the Company, the Company will recognize guardians, estate administrators or executors, and if there are no such persons, the lawful heirs of the shareholder, as parties with the sole right to the shares of the shareholder, after the entitlement thereto is substantiated in such manner as shall be determined by the board of directors.

10.8 In the event that a deceased shareholder held shares jointly with others, the Company will recognize the survivor as a shareholder in respect of the said shares, unless all the joint holders of the share have notified the Company in writing prior to the death of one of them, of their wish that the provisions of this Article shall not apply, provided that this shall not absolve the estate of a joint holder of a share from any obligation whatsoever that the joint holder would have had in respect of such share had he not passed away.

10.9 A person who acquires a right to shares by virtue of being a guardian, estate administrator, heir of a shareholder, a receiver, liquidator or trustee in bankruptcy of a shareholder or in accordance with any other legal provision, may, if and when he proves his right as such may be required by the board of directors, be registered as the shareholder or may transfer such shares to another person, subject to the provisions of the Articles in relation to a transfer.

10.10 A person who acquires a right to a Share as a result of a transfer thereof by operation of law, will be entitled to a dividend and to the other rights in respect of such share and he may also accept and give receipts for a dividend or for other payments payable in respect of such share; however, he will not be entitled to receive notices regarding the general meetings of the Company (insofar as such a right exists), and to participate at or vote at such meetings in connection with such share or to exercise any right whatsoever, which the share confers, except as aforesaid, until after he is registered in the register of shareholders.

11. **Bearer Share Warrant**

The Company will not issue bearer share warrants.

12. **Lien on Shares**

12.1 The Company shall have a first charge and a lien over all the shares that are not fully paid up, which are registered in the name of any shareholder, and over the proceeds of sale thereof, in relation to monies (whether or not the time for payment thereof has fallen due), payment of which has already been called or which are to be paid at a fixed time in respect of such shares. The Company shall also have a first charge over all the shares (except fully paid up shares) that are registered in the name of any shareholder as security for monies that are due from him or from his assets, whether his liability is individual or jointly with others. The said charge shall also apply over such dividends as have been declared from time to time in respect of such shares.

12.2 The board of directors may sell the shares to which the charge applies for the purpose of realizing the charge and lien, or any part thereof, in any manner as it sees fit. No such sale shall proceed until after written notification has been given to such shareholder as to the intention of the Company to sell them, and the amounts have not been paid within fourteen days after such notification. The net proceeds of any such sale, after payment of the sale expenses, shall be utilized in discharging the debts or obligations of such shareholder and the balance (if any remains) shall be paid to him.

12.3 Where a sale of shares has occurred in order to realize a charge or a lien by the *prima facie* exercise of the powers vested as aforesaid, the board of directors may register such shares in the register of shareholders, in the name of the purchaser, and the purchaser will be under no obligation to examine the propriety of the transaction or the way in which the purchase price is used. Following registration of the said shares in the register of shareholders in the name of the purchaser, no person shall have the right to challenge the validity of the sale.

13. **Alteration of Share Capital**[3]

The general meeting may resolve at any time to take one of the following actions, provided that a resolution of the general meeting as aforesaid has been adopted by a simple majority.

13.1 Increase of the Registered Share Capital

To increase the registered share capital of the Company, irrespective of whether or not all the shares registered at that time have been issued. The increased capital will be divided into ordinary shares with equal rights.

13.2 Consolidation and Division of Share Capital

To consolidate and re-divide some or all of its share capital into shares of a greater or smaller nominal value than that which is specified in the Articles. In a case in which, as a result of such consolidation, shareholders whose shares have been consolidated are left with fractions of shares, the board of directors may, if it receives approval thereto from the general meeting in the resolution as to consolidation of capital as aforesaid:

A. Sell the aggregate of all the fractions, and for this purpose appoint a trustee in whose name the share certificates containing the fractions shall be issued, and the trustee shall sell the said fractions, and the proceeds received less commissions and expenses shall be distributed to eligible shareholders. The board of directors will be entitled to decide that shareholders who are entitled to the consideration, which is less than an amount that it shall stipulate, will not receive a consideration from the sale of the said fractions, and their share in the sale proceeds shall be distributed among such shareholders who are entitled to a consideration that exceeds the stipulated amount, *pro rata* to the consideration to which they are entitled;

B. To allocate to all holders of shares in respect of whom the consolidation and the re-division leaves them with a fraction of a share, shares of the class of shares which, before such consolidation, are fully paid up, in such a number that their consolidation with the fraction will be sufficient for one complete consolidated share, and such an allocation shall be deemed as being effective immediately prior to such consolidation;

C. Determine that shareholders shall not be entitled to receive a consolidated share in respect of a fraction of a consolidated share, which derives from the consolidation of half or less of the number of shares whose consolidation creates one consolidated share, and they shall be entitled to receive a consolidated share in respect of a fraction of a consolidated share which derives from the consolidation of more than half of the number of shares whose consolidation creates one consolidated share.

In the event that an action taken in accordance with sub-paragraphs (b) or (c) above requires the issue of additional shares, payment therefor shall be made in the manner in which bonus shares may be repaid. Consolidation and division as aforesaid shall not be deemed to be a variation of the rights of the shares forming the subject of the consolidation and division.

[3] Subject to the provisions of Section 46.B. of the Securities Law, pursuant to which so long as the Company's shares are listed for trading on the Stock Exchange, the Company's share capital will consist of one class of shares.

13.3 Cancellation of Un-allocated Registered Share Capital

To cancel registered share capital which has not yet been allocated provided that the Company is under no obligation to allocate such shares.

13.4 Split of Share Capital

To split some or all of the Company's share capital, into shares with a smaller nominal value than that which is prescribed in the articles of association by division of some or all of the Company shares, at that time.

Chapter Three - General Meetings

14. **Powers of the General Meeting**

14.1 Subjects within the authority of the General Meeting

Resolutions of the Company in respect of the following matters shall be passed by the general meeting:

14.1.1 Changes to the Articles.

14.1.2 Exercise of the powers of the board of directors, provided that the general meeting has decided by a majority of 75% of the votes of shareholders who are entitled to vote and have voted either in person or by proxy, that the board of directors is incapable of exercising its powers and further that the exercise of its powers is essential for the proper management of the Company.

14.1.3 Approval of actions or transactions requiring approval of the general meeting pursuant to the provisions of Sections 255 and 268 to 275 of the Companies Law.

14.1.4 Any decision that, by law or under the Articles, must be passed by a resolution of a general meeting.

14.1.5 Any power which, by law, is vested in the general meeting.

14.2 Power of the General Meeting to Transfer Powers between the Company's Organs

The general meeting may by a majority of 75% of the votes of shareholders who are entitled to vote and have voted either in person or by proxy, assume such powers as are vested in another organ and may also transfer powers that are vested in the general manager to the authority of the board of directors, and all either in respect of a particular matter or for a particular period of time which shall not exceed the period of time required under the circumstances.

15. **Annual and Special General Meetings**

15.1 Notice of a General Meeting

The Company is not obliged to give notice of a general meeting to shareholders except in so far as this is mandatory by law.

The notice of a general meeting shall specify the place and the time for the convening of the meeting, its agenda, a summary of the proposed resolutions and any other detail as may be required under law.

16. **Proceedings at General Meetings**

16.1 Quorum

No general meeting may proceed unless a quorum is present at the time of the deliberation. Two shareholders who are present in person or by proxy and who hold or represent at least twenty five percent (25%) of the voting rights in the Company shall constitute a quorum. For the purpose of a quorum, a shareholder or his proxy, who also acts as proxy for other shareholders, shall be deemed to be two or more shareholders, depending on the number of shareholders that he represents.

16.2 Postponement of the General Meeting in the Absence of a Quorum

Where half an hour has elapsed from the time designated for the meeting and no quorum is present, the meeting shall be postponed to the business day following the day of the meeting, at the same time and at the same place or to such other day, time and place as shall be prescribed by the board of directors in a notification to the shareholders. The Company shall give notice, via an immediate report, of postponement of the meeting and the time of the holding of the adjourned meeting.

Where no quorum is present at such adjourned meeting as aforesaid, at least one shareholder, who is present either in person or by a proxy, shall be deemed as a quorum, except where such meeting has been called at the demand of shareholders.

16.3 Chairman of the General Meeting

The Chairman of the board of directors shall chair any general meeting, and, in his absence, it shall be chaired by whoever is appointed for such purpose by the board of directors. In the absence of a chairman, or if he has not appeared at the meeting after 15 minutes from the time designated for the meeting, the shareholders present at the meeting shall, in person or by proxy, elect one of the directors or the officeholders of the Company present at the meeting as chairman, or if no director or officeholder is present, or where all of them refuse to chair the meeting, one of the shareholders present, or one of the officeholders present, shall be elected to chair the meeting.

The chairman of the meeting shall not have an additional or casting vote.

The decision by the chairman that a resolution at the general meeting was passed unanimously or by a specific majority or was rejected and the minutes of the general meeting signed by the chairman shall serve as *prima facie* evidence of that stated therein.

17. **Votes of Shareholders**

17.1 Majority - resolutions at the general meeting shall be passed by a simple majority unless another majority is required by law or in accordance with the provisions of Articles 6, 14.1.2, 14.2, 19.1, 19.2.5 and 19.2.6 of these Articles. Checking the majority will be carried out by means of counting of votes, where each shareholder will have one vote per each share held by him.

17.2 Confirmation of title - a shareholder must furnish the Company with confirmation of title at least two business days prior to the date of the general meeting. The Company may waive such requirement.

17.3 Vote of a legally incapacitated party - a legally incapacitated party may only vote by a trustee, natural guardian or other legal guardian. Such persons may vote either in person or by proxy.

17.4 Vote of joint holders of a share - where two or more shareholders are the joint holders of a share, one of them shall vote, either in person or by proxy. Where more than one joint holder wish to participate in a vote, only the first of the joint holders will be able to vote. For such purpose the first of the joint holders shall be deemed to be the person whose name is recorded first in the register of shareholders.

17.5 The manner of voting and the counting of votes shall be done in accordance with the provisions of the Companies Law. A resolution at a general meeting shall be passed if it has received such majority as it is required to receive under law or in accordance with the provisions of these Articles.

18. **Appointment of a Voting Proxy**

18.1 Voting by Proxy

A shareholder may appoint a proxy to participate in and vote in his place, either at a particular general meeting or generally at the general meetings of the Company, provided that the written document authorizing the appointment of a proxy has been delivered to the Company at least 48 hours prior to the date of the general meeting, unless the Company has waived such requirement. A proxy need not be a shareholder of the Company.

If such proxy is not for a particular general meeting, a proxy that has been deposited prior to one general meeting shall also hold good for other subsequent general meetings.

The foregoing shall also apply to a shareholder that is a corporation and which appoints a person to participate in and vote in its place at the general meeting.

18.2 Format of the Proxy

The proxy shall be signed by the shareholder or by the person who is duly authorized in writing for such purpose, and where the appointing party is a corporation it shall be signed in such manner as binds such corporation. The Company may require that it be furnished with written confirmation to its satisfaction as to the fact of the due authority of the signatories to bind such corporation. A proxy shall be drawn up in the form specified hereunder. The Company secretary or the board of directors of the Company may, at their discretion, accept a proxy in a different form, including in the English language, provided that the variations are not fundamental. The Company will only accept an original proxy or a copy of the proxy, provided that the same is duly authenticated by a notary or by an attorney at law holding an Israeli license.

Proxy

To: **Date:**_____

[Name of Company
Corporate address:]
Dear Sir or Madam;

Re: Annual / special general meeting of _____ (the "Company")
to be held on _____(The "Meeting")

I the undersigned _____, Identity Card/Registration No. _____, of _____Street _____ being the registered holder of _____(*) ordinary shares of NIS____ par value each, hereby empower _____ Identity Card No. (**)_____ and/or _____ Identity Card No. _____and/or _____Identity Card No. _____to participate in and vote on my behalf and instead of me at the aforementioned meeting and at any adjourned meeting of the aforesaid meeting of the Company/at any general meeting of the Company, until I notify you otherwise.

_____
Signature

_____

(*) A registered shareholder may issue a number of proxies, each of them in reference to another quantity of shares of the Company held by him, provided that he shall not issue proxies for a quantity of shares that is greater than the quantity of shares held by him.

(**) In the event that the proxy does not hold an Israeli Identity Card, both the passport number and the country of its issue shall be stated instead.

18.3 Validity of Proxy

A vote in accordance with a proxy shall be lawful even if the appointing party has previously died or has become legally incapacitated or has become bankrupt or, in the event of a corporation - has been wound up, or has cancelled the proxy, or transferred the share in respect of which it was given, other than if notification in writing that such an event has occurred has been received at the registered office of the Company prior to the meeting.

18.4 Disqualification of Proxies

Subject to the provisions of any law, the Company secretary will be entitled at his discretion, to disqualify proxies if a reasonable concern exists that they are forged or that they have been furnished in respect of shares for which other proxies have been issued.

18.5 Voting by Voting Papers

In accordance with these Articles and the provisions of the Companies Law and the regulations enacted thereunder, the Company shareholders shall be given the option to vote at general meetings of the Company by means of voting papers, on all such matters as are obligatory by law as well as on such matters in respect of which the board of directors shall decide from time to time to allow a vote by means of voting papers.

Chapter Four - The Board of Directors

19. **Appointment of Directors and Termination of Their Office**

19.1 The number of directors - the number of directors of the Company shall not be less than five (5) and not more than seven (7) (not including the outside directors whose appointment is required under law), unless otherwise decided by the general meeting by a majority of 75%.

19.2 Appointment of Directors at an Annual Meeting and their Replacement

19.2.1 The Company directors serving in office (who are not outside directors), will be divided into three groups, one third each, which will hereinafter be referred to as: the "**First third to the Third Third**"). If the number of directors is not a multiplication of three, each of the two groups - the first third to the second third - will include another number, being a number which is closest to and more than a third, while the group of the third third will consist of the remaining directors (who are not outside directors). The initial division into thirds will be carried out pursuant to the board of directors' resolution with respect to such division, and the rule that will apply is that the division be carried out in accordance with the director's seniority on the board of directors, the most senior directors being included in the first third, and so forth. Should the number of directors vary, the number of directors in each group will vary in accordance with the aforesaid rule.

19.2.2 At the first annual meeting of the Company shareholders to be held after the Company has become a public company (in 2011), the office of the directors included in the first third will terminate and they will be put up for re-appointment at that meeting.

At the second annual meeting of the Company shareholders to be held after the Company has become a public company (in 2012), the office of the directors included in the second third will terminate and they will be put up for re-appointment at that meeting.

At the third annual meeting of the Company shareholders to be held after the Company has become a public company (in 2013), the office of the directors included in the third third will terminate and they will be put up for re-appointment at that meeting.

At the three subsequent annual general meetings the aforesaid mechanism will reapply, and so on and so forth.

Any director elected as aforesaid, will be elected for a three-year term (unless his office is terminated in accordance with the provisions of these Articles), so that every year the office of a group of one third of the board of directors will terminate, as aforesaid.

The elected directors shall assume their office commencing from the end of the meeting at which they were elected unless a later date is stipulated in the resolution on their appointment.

19.2.2 The appointment of members of the board of directors (who are not outside directors), will be carried out by the shareholders present at the meeting, in person or by proxy, or by means of a voting paper, by a simple majority of the votes of the shareholders as aforesaid.

19.2.4 If a director who was put up for re-appointment at the general meeting convened to deliberate same is not re-elected, the Company will convene another general meeting, at which another proposed director will be put up for the approval of the meeting. Notwithstanding the foregoing, the office of the director who has not been re-appointed or his alternate (insofar as he has appointed an alternate in accordance with the provisions of these Articles), will expire on the earlier of: (1) The additional general meeting as aforesaid; or (2) seventy days from the date of the annual general meeting as aforesaid in Sub-Article 19.2.2 above. It shall further be clarified that a director appointed as aforesaid will belong to the group of the third to which the director he replaced belonged, so that his office will expire on the date of the general meeting at which the office of the other directors of that third group will expire.

19.2.5 The general meeting may, at any time, by a majority of 75%, dismiss a director and it may decide at that time to appoint another person in his place by a majority of 75%. A director whose dismissal is on the agenda of the meeting will be given a reasonable opportunity to present his position before such meeting.

19.2.6 A special meeting of the Company may appoint directors for the Company *in lieu of* directors whose office has terminated and also in any case in which the number of members of the board of directors falls below the minimum that has been stipulated in these Articles or by the general meeting by a majority of 75% of the shareholders' votes. It should be clarified that a director appointed as aforesaid will belong to the group of the third to which the director he replaced belonged, so that his office will expire on the date of the general meeting at which the office of the other directors of that third group will expire.

19.2.7 The foregoing provisions of Sub-Articles 19.2.1 - 19.2.6 shall not apply to the appointment and term in office of outside directors, in respect of whom the provisions of the Companies Law shall apply.

19.2.8 Subject to the provisions of the law in relation to the expiry of the office of a director, but notwithstanding the provisions of Section 230 of the Companies Law, the office of a director shall not be terminated, other than as provided in this Article.

19.3 Appointment of Directors by the Board of Directors

The board of directors may appoint a director or additional directors for the Company, whether in order to fill an office that has become vacant for any reason whatsoever or whether in the capacity of a director or additional directors, provided that the number of directors shall not exceed the maximum number of members of the board of directors. Any director so appointed shall serve up to the first annual meeting held subsequent to his appointment. In the event that the number of directors has fallen below the minimum number of directors, as prescribed in Sub-Article 19.1 above, the remaining directors may only act to convene a general meeting of the Company for the purpose of appointing the vacant positions of directors and up to the date of such meeting, act to conduct the Company's affairs in connection with matters that are pressing.

19.4 Date of Commencement of the Office of a Director - the elected directors shall assume their offices commencing at the end of the general meeting at which they were elected or on the date of their appointment by the board of directors as provided above in Sub-Article 19.3, as the case may be, unless a later date is prescribed in the resolution on their appointment.

19.5 Alternate Director - subject to the provisions of the law, a director may from time to time appoint an alternate director for himself (hereinafter: "**alternate director**"), dismiss such an alternate director, and may also appoint another alternate director *in lieu of* any alternate director whose office has been vacated for any reason, either for a specific meeting or permanently.

19.6 A Director's Proxy - any director and any alternate director may appoint a proxy who shall participate and vote in their name at, any meeting of the board of directors or of a board of directors' committee. Such an appointment may be general or for the purpose of one or a number of meetings. Where a director or an alternate director is present at such a meeting the proxy may not vote *in lieu of* the director who appointed him. Such an appointment shall be valid in accordance with the contents thereof or until its revocation by the appointor. A director or an alternate director of the Company may serve as a proxy as aforesaid.

19.7 Termination of the Office of a Director - in the event of a director's position becoming vacant, the remaining directors may continue acting for as long as the number of remaining directors does not fall below the minimum number of directors that has been determined in these Articles or prescribed by the general meeting. If the number of directors has fallen below the foregoing, the remaining directors may only act in order to convene a general meeting of the Company.

19.8 Holding a Meeting by means of Communication and Without Convening

At a meeting that has been held by the use of any means of communication, it is sufficient that all of the directors who are entitled to participate in the proceedings and in a vote, shall be able to hear each other.

The board of directors may also pass resolutions without actually convening, provided that all of the directors who are entitled to participate in the discussion and to vote on the matter put forward for resolution have agreed not to meet to discuss such matter. Where resolutions have been passed as aforesaid, minutes of such resolutions shall be prepared, including the resolution not to convene and shall be signed by the chairman of the board of directors. The provisions of these Articles shall apply *mutatis mutandis* to such a resolution. A resolution that has been passed in accordance with this Article shall be valid in all respects as though it had been passed at a duly convened and conducted meeting of the board of directors.

19.9 Remuneration of Members of the Board of Directors - subject to the provisions of the Companies Law the Company may remunerate the Directors for fulfilling their functions as directors.

20. **Chairman of the Board of Directors**

20.1 Appointment - the board of directors shall elect one of its members to serve as chairman of the board of directors and will also designate the term in which he is to serve in his office, in the appointing resolution. If not stipulated otherwise in the resolution as to his appointment, the chairman of the board of directors shall serve in such capacity until another person is appointed in his place or until he ceases serving as a director, whichever is the earlier. Where the chairman of the board of directors has ceased serving in office as a director of the Company, the board of directors, at the first board of directors meeting held subsequently, shall elect a new chairman.

20.2 No Casting Vote - In the event of a tie of votes in a resolution of the board of directors, neither the chairman of the board of directors nor any person that has been elected to conduct the meeting, shall have an additional vote.

21. **Directors' Actions**

21.1 Convening a Meeting of the Board of Directors

Any notification of a meeting of the board of directors may be given verbally or in writing provided that such notification is given at least three business days prior to the date designated for the meeting, unless at least 75% of the members of the board of directors, their alternates or their proxies have agreed to shorten the said period of time. The aforesaid notwithstanding, the board of directors may convene for a meeting without notice only in urgent cases and with the consent of a majority of the directors.

Notification as aforesaid shall be given in writing, by facsimile, by electronic mail or by other means of communication and all to such address or the facsimile number, electronic mail address or the address to which notifications can be sent by other means of communication, as the case may be, which the Director furnished to the Company upon his appointment, or in a subsequent written notification to the Company and shall include reasonable details regarding the issues brought up for discussion at the meeting

Where an alternate or a proxy has been appointed, notification shall be given to such alternate or proxy unless the director has given notice that he wishes that notice shall also be given to him.

21.2 Quorum - the quorum for meetings shall be a majority of members of the board of directors who are not precluded by law from participating in a meeting, or any other quorum as will be prescribed by a majority of the members of the board of directors from time to time.

21.3 Validity of Actions of the Directors in the case of a Disqualified Director - All such actions as have been taken in good faith at a meeting of the board of directors or by a committee of the board of directors or by any person acting as a director shall be valid, even if it is subsequently discovered that there was a flaw in the appointment of a director or of such a person acting as aforesaid, or that they or one of them was disqualified, as though such a person had actually been duly appointed and was qualified to be a director.

21.4 Committees of the Board of Directors

Subject to the provisions of the Companies Law, the board of directors may appoint board of directors' committees.

The committees of the board of directors shall report to the board of directors their resolutions or recommendations on a regular basis, as shall be prescribed by the board of directors. The board of directors may cancel the resolution of a committee that has been appointed by it; however, such cancellation shall not affect the validity of any resolution of a committee, pursuant to which the Company acted, *vis-à-vis* another person, who was not aware of the cancellation thereof. Decisions or recommendations of the committee of the board of directors which require the approval of the board of directors will be brought to the directors' attention a reasonable time prior to the discussion at the board of directors.

22. **Validity of Actions and Approval of Transactions**

22.1 Subject to the provisions of any law, all such actions as have been taken by the board of directors or by a committee of the board of directors or by any person acting as a director, or as a member of a committee of the board of directors, or by the general manager, as the case may be, shall be valid even if it is subsequently discovered that there was any flaw in the appointment of the board of directors, a committee of the board of directors, the director who was a member of the committee or the general manager, as the case may be, or that any of the aforesaid officeholders was disqualified from serving in his position.

22.2 Subject to the provisions of the Companies Law:

22.2.1 If a person holds shares in the Company and if a person is an officeholder of the Company, a stakeholder, or an officeholder of any other corporation, including a corporation in which the Company is a stakeholder, or which is a shareholder of the Company, it shall not disqualify the officeholder from serving as an officeholder of the Company. Likewise, an officeholder shall not be disqualified from serving as an officeholder of the Company due to his contractual engagement or due to the contractual engagement of any corporation as aforesaid with the Company in any matter whatsoever and in any manner whatsoever.

22.2.2 The office of a person as an officeholder in the Company shall not disqualify him and/or a relative of his and/or another corporation in which he is a stakeholder from entering into transactions in which the officeholder has a personal interest in any way with the Company.

22.2.3 An officeholder may participate in and vote at discussions in respect of the approval of transactions or acts in which he has a *prima facie* personal interest, as prescribed in Sub-Articles 22.2.1 and 22.2.2.

22.3 Subject to the provisions of the Companies Law, a general notice that is given to the board of directors by an officeholder or a controlling shareholder of the Company with regard to his personal interest in a particular entity, while giving details of his personal interest, shall amount to disclosure on the part of the officeholder or the controlling shareholder to the Company with regard to his personal interest as aforesaid, for the purpose of the entering into any transaction which is not exceptional, with such an entity.

Chapter Five – Officeholders, Secretary, Internal Auditor and Auditor

23. General Manager

23.1 The board of directors may, from time to time, appoint a general manager for the Company and may further appoint more than one general manager. The board of directors may further dismiss the general manager or replace him at any time it deems fit, subject to the provisions of any agreement between him and the Company. The general manager will be responsible for the day-to-day management of the Company's affairs within the framework of the policy determined by the board of directors and subject to its directives.

23.2 The general manager will have all the powers of management and performance that were vested, pursuant to the Law or these Articles, or by virtue thereof, in another organ of the Company, apart from such powers as have been transferred from him to the board of directors. The general manager will be supervised by the board of directors.

23.3 The general manager may, subject to the approval of the board of directors, delegate some of his powers to another, who is his subordinate; the approval may be general and in advance.

23.4 Without derogating from the provisions of the Companies Law and any law, the general manager will submit to the board of directors, reports on such issues, on such dates and in such scope as shall be determined by the board of directors, either by means of a specific resolution or within the ambit of the board of directors' procedures.

23.5 The general manager will give notice to the chairman of the board of directors, without delay, of any exceptional matter that is material to the Company. If the Company has no chairman of the board of directors or if the chairman of the board of directors is unable to fulfill his function, the general manager will give a notice to that effect to all members of the board of directors.

23.6 The general manager may from time to time appoint officeholders for the Company (apart from directors and general manager), for permanent, temporary or special functions, as the general manager finds fit and the general manager may further terminate the services of one or more of the foregoing at any time.

24. **Internal Auditor**

24.1 The Company's board of directors will appoint an internal auditor, at the recommendation of the audit committee.

24.2 The officer in charge of the internal auditor at the organization will be the chairman of the board of directors.

24.3 The internal auditor will submit for the approval of the audit committee a proposed annual or periodic work plan and the audit committee will approve it with such amendments as it finds fit.

25. Secretary

The board of directors may appoint a Company secretary, on such terms as it shall deem appropriate, and appoint a deputy secretary and determine the scope of their functions and their authorities. Where a Company secretary has not been appointed, the general manager, or whoever he designates to this end, and in the absence of a general manager, whoever is empowered for such purpose by the board of directors, shall perform the secretary's functions that are prescribed under any law, in accordance with these Articles and in accordance with a resolution of the board of directors.
The Company secretary will be responsible for all the documents that are kept at the registered office of the Company and for maintaining all the registers that the Company maintains by law.

26. **Auditor**

26.1 Subject to the provisions of the Companies Law, the general meeting may appoint an auditor for a period that exceeds one year, as the general meeting shall decide.

26.2 The board of directors, following receipt of the audit committee's or the financial statement committee's (as determined by the board of directors) recommendations shall determine the remuneration of the Company's auditor for audit work as well as his remuneration for other services that are not audit work, unless otherwise determined by the general meeting of the Company.

Chapter Six - Preservation of the Capital of the Company and its Distribution

27. **Distribution and Allocation of Bonus Shares**

The Company's resolution on distribution of dividend, bonus shares or any other distribution, including any distribution that does not comply with the profit test prescribed in the Companies Law and the terms thereof, shall be passed by the board of directors of the Company.

28. **Dividends and Bonus Shares**

28.1 Right to a Dividend or to Bonus Shares

28.1.1 A dividend or bonus shares shall be distributed to whoever is registered in the register of shareholders of the Company on the date of the resolution as to such distribution or on such other date as shall be prescribed in such resolution. [4]

[4] It shall be clarified that so long as the Company shares are listed for trading on the Stock Exchange, any dividend or bonus shares will be distributed to whoever is registered in the register of shareholders of the Company on the effective date determined on the date of the resolution

28.2 Payment of the Dividend

28.2.1 The board of directors may resolve that the dividend be paid, in whole or in part, in cash or by means of distribution of assets in kind, including in securities or in any other manner, at its discretion.

The Company's board of directors may, before resolving to distribute any dividend, allocate out of the profits, any amounts as it shall deem fit for a general fund or a reserve fund for the distribution of dividend, distribution of bonus shares or for any other purpose whatsoever, as the board of directors shall resolve at its discretion.

Pending the realization of the said funds, the board of directors may invest any sums so allocated and the monies in the funds in any investment whatsoever, as it shall deem fit, deal with such investments, alter them or make any other use thereof, and it may subdivide the reserve fund into special funds and use any fund or any part thereof for the Company's affairs, without holding it separately from the other assets of the Company, all at the discretion of the board of directors and under such terms as it shall determine.

28.2.2 The Method of Payment[5]

If no other provisions have been prescribed in the resolution as to distribution of the dividend it will be permissible to pay any dividend, after deduction of the requisite tax under any law, by check to the beneficiary only, which shall be sent by registered mail to the registered address of the shareholder that is entitled to it, or by bank transfer. Any such check shall be drawn in favor of the person to whom it has been sent. A dividend in kind shall be distributed as stipulated in the distribution resolution.

In the event of joint registered shareholders, the check shall be sent to the shareholder whose name is recorded first in the register of shareholders in relation to the joint ownership.

Sending of a check to a person whose name, on the effective date, is registered in the register of shareholders as the holder of a share, or in the event of joint holders - of one of the joint holders, shall constitute discharge in respect of all the payments made in relation to such share.

The Company may resolve that a check below a certain amount, shall not be sent and amounts of the dividend that should have been paid as aforesaid shall be treated as unclaimed dividend.

[5] it should be clarified that so long as the Company shares are listed for trading on the Stock Exchange the provisions of this Sub-Article 28.2.2 shall not apply.

The Company may offset against the dividend to which a shareholder is entitled, any debt of such shareholder to the Company, whether or not the time for payment thereof has fallen due.

28.2.3 Unclaimed Dividend

The board of directors may invest any amount of dividend that has not been claimed for a period of one year after having been declared, or use it otherwise for the benefit of the Company until it is claimed. The Company will not be compelled to pay interest or linkage in respect of an unclaimed dividend.

After one year has elapsed from the due date of any unclaimed dividend, the Company may use the unclaimed dividend as aforesaid for any purpose whatsoever and the shareholder who is entitled to such unclaimed dividend will have no claim and/or demand in relation thereto.

28.3 Method of Capitalization of Profits into Capital Funds and Distribution of Bonus Shares

28.3.1 Funds

The board of directors may, at its discretion, set aside into special capital funds, any amount out of the Company's profits, or arising from a revaluation of its assets, or its *pro rata* stake in the revaluation of assets of its affiliated companies and determine the designation of such funds. The board of directors may also cancel such funds.

28.3.2 Distribution of Bonus Shares – Subject to the provisions of the Companies Law, the board of directors may resolve to allocate bonus shares and render share capital as part of the Company's profits, within the meaning thereof in Section 302 (b) of the Companies Law, from premium on shares or from any other source contained in its equity, referred to in its last financial statements, in such sum as shall be determined by the board of directors and which shall not fall below the nominal value of the bonus shares.

Allocated bonus shares shall be deemed as fully repaid.

The board of directors resolving to allocate bonus shares may resolve that the Company will transfer to a special fund designated for future distribution of bonus shares, such amount as the rendering thereof into share capital will be sufficient to allocate to whoever, at that time, for any reason whatsoever, has a right to purchase shares in the Company (including a right exercisable only on a subsequent date), bonus shares which would have been due to him had he exercised the right to purchase the shares on the eve of the effective date for the right to receive the bonus shares (hereinafter, in this Article: the "**effective date**"). If after the effective date, the holder of the said right should exercise his right to purchase all or any of the shares, the Company will allocate bonus shares to him, having a par value and to which he would have been entitled had he exercised the right to purchase the shares which he actually purchased, on the eve of the effective date. The bonus shares will entitle their owners to participate in distribution of dividends as of the date designated by the board of directors. For the purpose of determining the amount to be transferred to the said special fund, any amount transferred to this fund for previous distributions of bonus shares shall be treated as having already been capitalized, where shares entitling the holders of the right to purchase shares, have been allocated therefrom, for bonus shares.

For the purpose of distribution of bonus shares, the board of directors may, as it sees fit, resolve any difficulty that might arise and make adjustments, such as deciding that fractions of a share shall not be distributed, issue certificates in respect of an aggregate quantity of share fractions, sell such fractions and pay the proceeds from the sale thereof to those entitled to receive the fractions of the bonus shares and may also decide that cash payments shall be made to the shareholders, or that fractions of a lesser value than a stipulated amount (and if not stipulated then amounts which are less than NIS 50) shall not be brought into account in making such adjustments. Notwithstanding the foregoing, a shareholder will be entitled to apply to the Company and ask that such payment be made to him at the Company's offices.

29. **Acquisition of Company Shares**

The Company may acquire its own securities. Where the Company has acquired securities as aforesaid it may cancel them.

Chapter Seven - Exemption, Indemnification and Insurance of Officeholders

30. **Exemption of Officeholders**

The Company may exempt an officeholder therein, in advance or *post factum,* from some or all of his liability for damage as a result of breach of a duty of care *vis-à-vis* the Company, to the maximum extent that is permissible under any law.

31. **Indemnification of Officeholders**

The Company may indemnify its officeholders to the maximum extent permissible under any law. Without derogating from the generality of the foregoing, the following provisions shall apply:

31.1 The Company may indemnify an officeholder therein in respect of a liability, payment or expense imposed on him or that he has incurred as a result of an action, which he took by virtue of his being an officeholder of the Company, as follows:

31.1.1 Any financial liability imposed on him in favor of another person under a judgment, including a judgment entered under a settlement or an award approved by a court.

31.1.2 Reasonable litigation fees, including lawyer's fee, incurred by the officeholder due to any investigation or proceeding conducted against him by any authority competent to conduct an investigation or proceeding, at the end of which no indictment was filed against him and no financial liability was levied on him as an alternative for a criminal proceeding, or at the end of which no indictment was filed against him but a financial liability was levied as an alternative for a criminal proceeding in an offense not requiring proof of *mens rea* or in connection with a monetary sanction.

31.1.3 Reasonable litigation expenses, including lawyer's fees paid by the officeholder, or with which he was charged by the Court, in a proceeding filed against him by the Company or on its behalf or by any other person, or in criminal charges from which he was acquitted, or in criminal charges in which he was convicted of an offense which does not require proof of *mens rea*.

31.1.4 A payment for the party harmed by the breach, as aforesaid in Section 52(54)(a)(1)(a) of the Securities Law (the "**Party Harmed by the Breach**").

31.1.5 Expenses incurred by an officer in connection with an Administrative Proceeding conducted in his matter, including reasonable litigation expenses, including legal fees.

31.1.6 Any other liability or expense for which it is permitted and/or will be permitted by law to indemnify an officeholder.

31.2 Advance Indemnification

The Company may give an undertaking in advance to indemnify an officeholder for a liability, payment or expense as specified above in Sub-Article 31.1.1., provided that such advance indemnity undertaking shall be limited to such events as, in the opinion of the board of directors, are anticipated in view of the Company's actual activity at the time of giving the indemnity undertaking, and to such amount or criterion as the board of directors have determined to be reasonable under the circumstances of the case, and further provided that such undertaking shall state the events that in the opinion of the board of directors are anticipated in view of the Company's actual activity at the time of giving such undertaking as well as the amount or criterion that the board of directors have determined to be reasonable in the circumstances of the case. And the Company may also give an indemnity undertaking in advance to an officeholder in respect of liabilities or an expense as specified in Articles 31.1.2, 31.1.3, 31.1.4, and 31.1.5 above.

31.3 Retroactive Indemnification

The Company may indemnify an officeholder therein *ex post facto*.

32. **Officeholders' Insurance**

32.1 The Company may insure its officeholders to the maximum extent permitted under any law. Without derogating from the generality of the foregoing, the Company may enter into a contract for insuring the liability of an officeholder in the Company in respect of a liability or a payment that may be imposed on him as a result of an action that he has taken in his capacity as officeholder in the Company, in any of the following cases:

32.1.1 Breach of the duty of care to the Company or to any other person;

32.1.2 Breach of a fiduciary duty *vis-à-vis* the Company, provided that the Officeholder acted in good faith and had reasonable grounds to assume that his act would not compromise the Company's best interests;

32.1.3 Financial liability imposed on him in favor of another person;

32.1.4 Payment to the Party Harmed by the Breach;

32.1.5 Expenses incurred by an officer in connection with an Administrative Proceeding conducted in his matter, including reasonable litigation expenses, including legal fees;

32.1.6 Any other event for which it is permitted and/or will be permitted pursuant to the law to insure the liability of an officeholder.

33. **Exemption, Indemnification and Insurance - General**

33.1 It is neither the intention of the foregoing provisions in relation to exemption, indemnification and insurance, nor will there be any future intention, to restrict the Company in any way from entering into a contract in relation to exemption, insurance or indemnification of the parties specified hereunder:

33.1.1 A person who is not an officeholder of the Company, including employees, contractors or consultants of the Company who are not officeholders of the Company;

33.1.2 Officeholders in other companies. The Company may enter into a contract in relation to exemption, indemnification and insurance of officeholders in companies under its control, related companies and other companies in which it has any interest, to the maximum extent permitted under any law, and in this context the foregoing provisions in relation to exemption, indemnification and insurance of officeholders in the Company shall apply, *mutatis mutandis*.

33.2 It should be clarified that in this Chapter, an undertaking in relation to exemption, indemnification and insurance of an officeholder as aforesaid may also be valid after the office of such officeholder in the Company has terminated.

Chapter Eight - Merger, Winding Up and Reorganization of the Company

34. **Merger**

34.1 The requisite majority for approval of a merger by the general meeting shall be a simple majority.

35. **Liquidation**

35.1 If the Company is wound up, whether voluntarily or otherwise, the liquidator may, with the approval of a general meeting, distribute *in specie* parts of the Company's assets among the shareholders, and he may, with like approval, deposit such part of the Company's assets with trustees for the benefit of the shareholders, as the liquidator, with such approval, shall deem appropriate.

35.2 Subject to special rights of shares, where shares have been issued with special rights, the Company's shares shall have equal rights *inter se* in relation to the amounts of capital that have been paid or that have been credited as paid in respect of the nominal value of the shares, in connection with the surrender of capital and participation in a distribution of surplus assets of the Company upon liquidation.

36. **Reorganization of the Company**

36.1 Upon the sale of assets of the Company, the board of directors, or the liquidators (in the case of liquidation) may, if they have been duly authorized to do so in a resolution that has been passed by a simple majority at the general meeting of the Company, accept shares that are either fully or partially paid up, debentures or securities of another company, either Israeli or foreign, whether it has been incorporated or is about to be incorporated, for the purchase of all or any of the Company's assets, and the directors (if the Company's profits so allow) or the liquidators (in case of a liquidation), may distribute, among the shareholders, the shares or securities as aforesaid or any other assets of the Company without realizing them, or deposit them with trustees on behalf of the shareholders.

36.2 The general meeting may, by a resolution to be passed by the general meeting of the Company by a simple majority, decide as to a valuation of the securities or assets as aforesaid at such price and in such manner as the general meeting shall decide, and all the shareholders will be bound to accept any valuation or distribution that has been authorized as aforesaid and to waive their rights in this context, except, in the event that the Company is about to be wound-up or is in the process of winding-up, for such legal rights (if any) which, under the provisions of the law, cannot be amended, revised, or contracted out.

Chapter Nine - Notifications

37. **Notices**

37.1 A notification or any other document may be delivered by the Company to any shareholder who appears in the register of shareholders of the Company, either personally or by sending by registered mail addressed in accordance with the registered address of such shareholder in the register of shareholders or to such address as the shareholder has notified in writing to the Company as his address for the delivery of notifications, or by publication of notices in two newspapers in Israel, or by means of publishing an immediate report on the Magna system.

37.2 All notices to be given to the shareholders shall, in relation to shares that are jointly held, be given to such person whose name appears first in the register of shareholders and any notification that is given in such manner shall be sufficient notification to all the joint shareholders.

37.3 Any notification or other document which is delivered or sent to a shareholder in accordance with these Articles shall be deemed to have been duly delivered and sent in respect of all the shares held by him (whether as regards Shares held by him alone or by him jointly with others), even where such shareholder has passed away at that time or became insolvent, or an order has been issued for its winding up, or a trustee or liquidator or receiver has been appointed for his shares (whether or not the Company was aware of the occurrence of such event), until another person is registered in the register of shareholders instead of him as the holder thereof, and delivery or sending of a notification or document as aforesaid shall be deemed to be sufficient delivery or dispatch to any person who has a right to such shares.

37.4 Any notification or other document that has been sent by the Company in the mail to an address in Israel shall be deemed to have been delivered within 48 hours from the day on which the letter containing such notification or document was dispatched at the post office or within 96 hours in the event that the address is overseas, and for the purpose of proving delivery, it shall be sufficient to prove that the letter containing the notification or the document was duly addressed and was dispatched at the post office. Any notice or document delivered by means of notifications in newspapers or via an immediate report on the Magna system, will be deemed to have been delivered on the date of publishing the notice or on the date of publishing the immediate report as aforesaid.

37.5 The Company is not obliged to give notice of a general meeting to shareholders except in so far as this is mandatory by law. The notice of a general meeting shall specify the place and the time for the convening of the meeting, its agenda, a summary of the proposed resolutions and any other specification as is required under law.

37.6 Accidental omission in giving notice of a general meeting to any shareholder or non-receipt of a notification as to a meeting or other notification by any shareholder shall not invalidate a resolution that has been passed at such meeting, or cause the invalidation of processes based on such notification.

37.7 Notices to directors may be given in any manner to be determined by the board of directors.

37.8 Any shareholder and any member of the board of directors may waive his right to receive notification, or his right to receive notification within a specific period of time, and may agree that a general meeting of the Company or a meeting of the board of directors, as the case may be, shall convene and be held despite his not having received notification or despite such notification not having been received by him within the required time.

* * *

EXHIBIT 4.4

IntelGenx Corp.

THE SYMBOL "[****]" DENOTES PLACES WHERE PORTIONS OF THIS DOCUMENT HAVE BEEN OMITTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT. SUCH MATERIAL HAS BEEN FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION.

Montreal, January 31st 2013

Ori Shilo
Deputy CEO, Finance and Operations
RedHill Biopharma Ltd.
21 Ha'arba'a St.
Tel-Aviv
64739
Israel

Re: Side Letter Agreement with RedHill Biopharma Ltd.

Dear Mr. Shilo,

RedHill Biopharma Ltd. ("RedHill") and IntelGenx Corp. ("IntelGenx") have entered into that certain Co-Development and Commercialization Agreement (the "Agreement"), dated as of August 26th, 2010, in respect of the development of an oral film containing rizatriptan ("Product"). IntelGenx is the current sole and legal owner of New Drug Application #205394 ("NDA") and Investigational New Drug #110753 ("IND"), both pertaining to the Product. RedHill and IntelGenx (collectively, the "Parties") hereby enter into this Side Letter Agreement to define the Parties' respective roles and responsibilities associated with the transfer and ownership of NDA #205394 and IND #110753 in respect of the Product.

1) **Ownership and Regulatory filing.** In accordance with section 4.3 of the Agreement, RedHill will become financially responsible for the payment of the Prescription Drug User Fee Act ("PDUFA") fee. At its sole discretion, RedHill will either pay the PDUFA fee or seek to obtain a small business fee waiver as defined under 736(d)(1)(E) of the FD&C Act by the FDA. Since RedHill has decided to be financially responsible for the PDUFA fee, IntelGenx shall transfer the NDA and the IND for the Product to RedHill to enable Redhill, in accordance with section 4.9 of the Agreement, to file the NDA application with the FDA and act as the applicant during the regulatory process.

In accordance with section 4.9 of the Agreement, the joint ownership of the NDA by the Parties remains unchanged by the transfer of the NDA. Any decisions regarding the preparation and prosecution of the NDA will be made by the Steering Committee as provided in section 4.9 of the Agreement. For the avoidance of doubt, the responsibilities of the parties as per section 5 of the Agreement remain unchanged by the transfer of the NDA.

2) **Expenses For Completion Of Project.** In addition to those costs and expenses at RedHill's charge identified in the R&D Budget (as defined in the Agreement), RedHill agrees to pay the expenses and costs specified in Exhibit A, in excess of the agreed budget.

3) **Data Transfer.** RedHill shall provide IntelGenx with a complete copy of all regulatory filings made by RedHill and all communications, relating to the Product, with the FDA. RedHill shall not make changes to the NDA for the Product, which would change the NDA in any form or way without prior written approval by IntelGenx. RedHill shall reasonably provide to IntelGenx upon reasonable request, at no cost to IntelGenx, copies of all the pertinent information it has about the Product including, but not limited to, the entire NDA file, Regulatory Activities, communications with Regulatory Authorities in the US, Regulatory Documentation, manufacturing, supply, external service and other contracts and any and all other information whatsoever that is relevant for the development, marketing approval, marketing and other commercialization of the Product. For the sake of clarity, the responsibility of IntelGenx for all regulatory aspects of the Product remains intact as per the Agreement.

4) **NDA Transfer To Commercial Partner.** The Parties agree that, upon execution of a commercialization and licensing agreement for the Product with a commercial partner that includes the transfer of the NDA to the partner, the Parties will transfer full NDA and IND ownership to the commercial partner on terms to be agreed at the time of entering into the agreement with the commercial partner.

5) **Notification to FDA.** Within ten (10) calendar days after the execution of this Side Letter Agreement, the Parties shall execute and deliver to the FDA any and all documents necessary in order to identify RedHill as applicant for the NDA of the Product.

6) **Assistance.** Both Parties agree that they should provide reasonable assistance to each other for the preparation and filing of the NDA associated with the Product.

Article 17.3 of the Agreement applies to this Side Letter Agreement.

Unless specifically provided in this Side Letter Agreement, the terms of the Agreement shall continue to apply.

This Side Letter Agreement may be executed in one or more counterparts, each of which shall be deemed an original but taken together shall constitute one and the same agreement. It may be executed by facsimile, which shall be deemed an original for all purposes.

To confirm your agreement with the terms of this Side Letter Agreement, please sign the acknowledgement below and return it to the address listed below.

Sincerely,

IntelGenx Corp.

By: /s/Paul A. Simmons
Paul A. Simmons
CFO
Date: January 31st 2013

By: /s/ Horst G. Zerbe
Horst G. Zerbe, Ph.D., CEO
Date: January 31st 2013

6425 Abrams
Ville St-Laurent (Qc)
H4S 1X9
Canada

RedHill Biopharma Ltd.

By: /s/ Ori Shilo
Ori Shilo
Deputy CEO, Finance and Operations
Date: January 31st 2013

By: /s/ Dror Ben-Asher
Dror Ben-Asher, CEO
Date: January 31st 2013

21 Ha'arba'a St.
Tel-Aviv
64739
Israel

Exhibit A – Additional R&D expenses

Upon signing this Side Letter Agreement, RedHill agrees to reimburse IntelGenx for additional R&D expenses that exceed the R&D budget as defined in the Agreement upon the following conditions:

1. Such expenses are under the manufacturing agreement between IntelGenx and [****].
2. Such expenses were actually accrued by [****] and were billed to IntelGenx.
3. Such expenses are in accordance with the hours proposed in the schedule entitled "Timeline and cost estimate riza oct 25 2012.pdf" attached here to as Exhibit B.
4. Such expenses are only in accordance to the preparation of the NDA submission.
5. Such expenses are in accordance with the table below
6. Such expenses will not exceed the number of hours, the hourly rate and the maximum additional costs as defined in the table below.

task	Max. Number of hours	Hourly Rate	Max. additional costs	Comments
[****]	[****]	EUR [****]	EUR [****]	
Regulatory Support and project management	[****]	EUR [****]	EUR [****]	
Total	[****]	EUR [****]	EUR [****]	

IntelGenx Corp.

By: /s/ Paul A. Simmons
Paul A. Simmons
CFO
Date: January 31st 2013

RedHill Biopharma Ltd.

By: /s/ Ori Shilo
Ori Shilo
Deputy CEO, Finance and Operations
Date: January 31st 2013

By: /s/ Dror Ben-Asher
Dror Ben-Asher, CEO
Date: January 31st 2013

Exhibit B – Development plan

[****]

EXHIBIT 4.9

AMENDMENT #2

THE SYMBOL "[****]" DENOTES PLACES WHERE PORTIONS OF THIS DOCUMENT HAVE BEEN OMITTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT. SUCH MATERIAL HAS BEEN FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION.

AMENDMENT TO THE MASTER SERVICE AGREEMENT FOR REDHILL BIOPHARMA LTD.'S RHB R&D PROGRAM

BY AND BETWEEN: **RedHill Biopharma Ltd.**, with principle place of business at **21 Ha'arba'a St. Tel-Aviv 64739, Israel** (herein referred to as the "Client"),

AND: **7810962 Canada Inc (doing Business under the name "InSymbiosis")**, a body politic and corporate, duly incorporated according to the laws of Canada and with principle place of business at 245 Victoria Ave, Suite 100, Montreal, Quebec, H3Z 2M6, Canada, (herein referred to as the "Provider"),

The Client and the Provider are, in this Agreement, sometimes individually referred to as "Party" and collectively as the "Parties".

WHEREAS on 28 April 2011**,** the Client and the Provider entered into a Master Service Agreement in relation to the Client's RHB R&D Program (the "MSA");

WHEREAS WHEREAS the MSA was scheduled to terminate on April 28, 2013 and the parties hereby agree to formally extend the term of the MSA until on April 28, 2015 (the "Extended Period"); and

WHEREAS the Parties have agreed to certain terms and conditions, the whole as is fully set forth below.

NOW, THEREFORE, THE PARTIES HERETO AGREE AS FOLLOWS:

1. Unless specifically set out otherwise in this agreement (the "AMENDMENT AGREEMENT"), the terms of the MSA shall continue to apply.

2. The parties hereby agree to formally extend the term of the MSA until April 28, 2015.

3. The parties hereby agree that as per Section 7l of the MSA, [****] will replace [****] as clinical project manager.

7810962 Canada Inc

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4. During the term of the Agreement, PROVIDER will charge CLIENT a monthly project management fee of $US[****]. This monthly project management fee will be payable each quarter, in advance, upon lawful invoice to be provided by the PROVIDER to the CLIENT within 21 days of the beginning of the relevant quarter according to the following payment schedule:

- [****]

IN WITNESS WHEREOF, the parties hereto have executed this Amendment Agreement as of the date first herein above mentioned.

REDHILL BIOPHARMA Ltd.

/s/ Dror Ben-Asher
Per: Dror Ben-Asher
Title: CEO
Date: May 29, 2013

/s/Ori Shilo
Per: Ori Shilo
Title: VP Finance and Operation
Date: May 29, 2013

PARTY OF THE FIRST PART

7810962 Canada Inc.

/s/ Alain Guimond
Per: Alain Guimond
Title: Senior Director of Research
Date: May 29, 2013

PARTY OF THE SECOND PART

7810962 Canada Inc

EXHIBIT 4.13

THE SYMBOL "[****]" DENOTES PLACES WHERE PORTIONS OF THIS DOCUMENT HAVE BEEN OMITTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT. SUCH MATERIAL HAS BEEN FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION.

Amendment 2 to Clinical Services Agreement

Sponsor's study drug RHB-104

THIS AMENDMENT #2 ("**Amendment**") to the Clinical Services Agreement signed 15 June 2011 ("**Clinical Services Agreement**"), is by and among:

(1) (1) RedHill Biopharma Ltd., having its principle place of business at 21 Ha'arba'a St., Tel Aviv 64739, Israel (hereafter "**SPONSOR**");

(2) 7810962 Canada Inc., a Canadian corporation, having its principal office at 245 Victoria Ave, Suite 100, Montreal, Quebec, H3Z 2M6, Canada (hereinafter "**MANAGER**");

Is hereby made effective as of December 11, 2013 ("**Effective Date**") and the parties hereby agree as follows:

1. Amendment 2 to Clinical Services Agreement.

   This Change Order constitutes an amendment to the Clinical Services Agreement pursuant to section 3.0 therein. As such, this Change Order is subject in all respects to the terms and provisions of the Clinical Services Agreement.

2. Scope of Work

   In addition to the Services to be provided in the above-referenced Clinical Services Agreement, Manager will cause inVentiv Health Clinical to perform additional Services for Sponsor's study drug RHB-104, in accordance with the Summary of Changes attached hereto and incorporated herein as Exhibit A. The EU trial is removed from the contract in this amendment to the trial agreement.

3. Compensation

   Under this Change Order, inVentiv Health Clinical's Professional Fees have decreased by the discounted amount of USD [****], the pass-through costs have increased by USD [****] and the investigator's grants costs have Increased by USD [****]. The total cost of the Clinical Services Agreement have increased to USD [****].

Payment due to Manager for the Services provided under this Change Order shall be made pursuant to the Agreement and the revised unit Payment Schedule attached hereto and incorporated herein as Exhibit B.

4. Project Period

The term of this Change Order shall commence on the date of its execution and shall continue until the Services as described in the Clinical Services Agreement are completed, unless this Change Order or corresponding Clinical Services Agreement are terminated early in accordance with the Clinical Services Agreement.

By their signatures below, the parties hereto agree to the terms of this Change Order and represent that they are authorized to enter into this Change Order on behalf of their respective companies.

ACCEPTED AND AGREED TO:

RedHill Biopharma Ltd.

/s/ Dror Ben-Asher
Name: Dror Ben-Asher
Title: CEO

Date: January 19, 2014

RedHill Biopharma Ltd.

/s/ Ori Shilo
Name: Ori Shilo
Title: Deputy CEO Finance and Operations

Date: January 19, 2014

For 7810962 Canada Inc

/s/ Alain Guimond
Name: Alain Guimond
Title: Sr Director of R&D

Date: January 10, 2014

Exhibit A: Summary of Changes

Study Assumption Changes

Changes to the parameters and assumptions for the study are defined below. Unless otherwise noted, activities will be performed according to the original contract. EU trial is removed from the study agreement

Amendment #2 RedHill Biopharma

Overview of major level changes

Category	Contract	Change Order – NA Project	Rationale for change
Study Start- Up period	[****]	[****]	Work on global project began mid-July2011, with kick-off meeting August 10, 2011. Final protocol for NA expected early September, and then delayed until December 2011. [****]. On Mar. 1, 2012, the project was put on hold with an agreed upon charge of $[****]K/month; a contract amendment was put in place. The hold lasted [****] months, at which time inVentiv Health Clinical was instructed to restart start-up activities in full. Start-up activities continue.
Enrolment period	[****]	[****]	Per client
Stats Timeline	[****]	[****]	
# of countries	[****]	[****]	EU sites are removed from the study agreement. [****].
# of sites	[****]	[****]	Per client
# of subjects	[****]	[****]	Per client
# of CRF pages/book	[****]	[****]	Number of visits in NA study has [****][****]
# of unique CRF pages	[****]	[****]	CRFs are complete [****].
# RMVs per site	[****]	[****]	Calculated based on total number of CRF pages. [****]
# of PSVs	[****]	[****]	Additional sites, therefore additional PSVs
# of SIVs	[****]	[****]	Additional sites, therefore additional SIVs
# of RMVs	[****]	[****]	Additional CRF pages to be monitored (as detailed above), therefore additional RMVs required
# of COVs	[****]	[****]	Additional sites, therefore additional COVs
# of internal meetings	[****]	[****]	Dependent upon duration of trial: meetings typically held weekly during start-up and enrolment, then monthly thereafter
# of client telecons	[****]	[****]	Dependent upon duration of trial: meetings typically held weekly during start-up and enrolment, then monthly thereafter

Category	Contract	Change Order – NA Project	Rationale for change
Investigator Meeting	[****]	[****]	Per client
# of vendors	[****]	[****]	[****]
# of edit checks	[****]	[****]	[****]: have 2 unique databases now, and larger CRF for each
# of imports	[****]	[****]	[****]: imports occur monthly from FPI to LPO plus one month, plus 1 test and 1 final
# of SAEs	[****]	[****]	Increased because # of subjects has increased. Assume 5% SAE rate in each study.
# of SAE Narratives	[****]	[****]	As above. Require 1 narrative for each SAE.
IVRS	[****]	[****]	Client request to include IVRS for randomization with 1 drug assignment/site, and unblinding capability
eCRF Changes	[****]	[****]	Amended protocol required changes to the previously finalized eCRF

1.1 Revised Costs

Costs for this study are presented below in two categories, pass-through costs and professional fees.

1.1.1 Pass-Through Costs

Pass-through costs are in US dollars and include, but are not limited to, those expenses listed below. Manager will invoice Sponsor for actual costs in these areas. Actual costs will be kept to reasonable levels through adherence to inVentiv Health Clinical's travel policy and prudent negotiation with outside providers. Pass-through costs are presented in the table below:

Task	Original (USD)	New NA (USD)	Assumption Changes influencing the change in the budget	Additional comments
Site Visit Travel	[****]	[****]	Original contract has a total of [****] site visits. [****]	
Investigators' Meeting Organisation	[****]	[****]	WebEx costs included in original budget. Investigator meetings have been changed to F2F.	
Kick-off Meeting Travel/Attendance	[****]	[****]	Originally assumed [****] cover study globally, as studies and timelines were the same. Now assume [****] for each study, since timelines are vastly different and study teams not identical.	
Shipping/Photocopying	[****]	[****]	Original contract assumes [****]. New NA budget assumes [****].	
Translation	[****]	[****]	Original contract [****]. New NA budget [****];	Costs for translating patient recruitment materials have been removed as this service is not included in updated budgets.

Task	Original (USD)	New NA (USD)	Assumption Changes influencing the change in the budget	Additional comments
Regulatory Fees	[****]	[****]	assumed [****].	Current costing tool separates out Regulatory Fees and [****] fees, as seen in EU costing.
[****] (& Regulatory) Fees	[****]	[****]	New NA costing assumes [****].	For original costing and new NA costing, these fees remain combined.
EDC Studies/3G Cards	[****]	[****]	[****]	
[****]	[****]	[****]		[****]
EDC Fees ([****])	[****]	[****]		EDC Fees were included in Professional Fees in initial bid
Pass Through Costs	[****]	[****]		

1.1.2 Investigator Grants Costs

	Original (USD)	NA (USD)	Assumption Changes influencing the change in the budget	Additional Comments
Investigator Grants	[****]	[****]	Original contract assumed [****] patients. New NA costing assumed [****] patients	Estimate only. Will be paid based on actual costs as approved by the Client.

1.1.3 Professional Fees

Based on the parameters and assumptions outlined in the original proposal, inVentiv Health Clinical fees are categorised by major activity in the table below and in USD:

Task	Original (US Dollars)	New NA (US Dollars)	Assumption Changes influencing the change in the budget	Additional comments
Pre-study Activities				
Case Report Form Preparation/Review	[****]	[****]	[****]	Original costs were to prepare one CRF that would be utilized by both studies; with different study designs now we are preparing two different CRFs but are able to take efficiencies on pages that will be the same in both studies. Additionally, number of visits in NA study has [****] since details provided in protocol synopsis in April 2011
Data Management Plan Preparation/Review	[****]	[****]	[****]	Originally cost allocation was to prepare one plan to be utilized by both studies; with different study designs now we are preparing two different DM plans. We are able to copy some aspects/pages of the DM plan from the NA study to the EU study, and where there are not similarities we have allocated cost for new pages/edit specs.
Informed Consent Preparation/Review	[****]	[****]	[****]	
[****]	[****]	[****]	[****]	
Investigators' Meetings	[****]	[****]	[****]	

Task	Original (US Dollars)	New NA (US Dollars)	Assumption Changes influencing the change in the budget	Additional comments
Investigator Site Contract	[****]	[****]	[****]	
Investigator Recruitment	[****]	[****]	[****]	[****]
Project Plan Preparation/Review	[****]	[****]	[****]	[****]Assumed that there are efficiencies in the preparation of the EU plan based on finalization of the plan in NA due to similar process where applicable. EU IPP plan will be different based on countries included outside NA and Israeli.
Protocol Preparation/Review	[****]	[****]	[****]	Assumes a separate CRA team is reviewing/reading protocol due to countries not being the same. With the start of the EU study subsequent to the NA, there is also a separate team in many functional areas, i.e., separate DM team, biostats, medical writing, and safety.
Randomization Schedule Preparation	[****]	[****]	Originally allocated cost for [****]and now doing [****]	
Study-Specific Form Preparation	[****]	[****]	Originally allocated cost for [****]Now [****]	Efficiencies will be applied in EU study: assume use NA forms modified to suit EU study
Training - Project-Specific	[****]	[****]	Originally allocated cost for [****]	Training two separate teams w larger EU team. Assumed NA training would be modified for EU training, but protocol designs are different so training different.
Translations	[****]	[****]	[****]	Fewer languages in NA study than EU
PROMIS	[****]	[****]	[****]	Two separate databases; one for each study.
Monitoring/Site Management				
Data Clean-up	[****]	[****]		Increased number of eCRF pages.
Investigator Grant Administration	[****]	[****]	[****]	[****]
Laboratory Report Review	[****]	[****]	Decrease in total number of patients	Originally allocated cost for [****]
Serious/Significant Adverse Event Management	[****]	[****]	Decreased number of SAEs due to decreased number of subjects	Originally allocated cost for [****]

Task	Original (US Dollars)	New NA (US Dollars)	Assumption Changes influencing the change in the budget	Additional comments
Site Management	[****]	[****]	Decreased number of sites and increased months	Originally allocated cost for the management [****]
Site Visits - Pre-study Visits	[****]	[****]	Decreased number of sites	Originally cost allocation was for [****]
Site Visits - Initiation Visits	[****]	[****]	Decreased number of sites	Originally cost allocation was for [****]
Site Visits - Routine Visits	[****]	[****]	Increased number of visits due to increased number of CRF pages to monitor	Originally cost allocation was for [****]
Site Visits - Close-out Visits	[****]	[****]	Decreased number of sites	Originally cost allocation was for [****]
Study Master File/Project File Set-up and Maintenance	[****]	[****]	Decreased number of sites and increased months	Originally allocated cost for the management [****]
Patient/Site Recruitment	[****]	[****]		
Regulatory				
Regulatory Documentation Preparation/Review	[****]	[****]	Decreased number of sites	Originally cost allocation was [****]
Project Management/Project Tracking				
Financial Project Management	[****]	[****]	Increased study durations; 2 separate studies vs. 1	Originally cost allocation was [****]
Project Management	[****]	[****]	Increased study durations; 2 separate studies vs. 1	Originally cost allocation was [****]
Project Tracking/Communications	[****]	[****]	Increased study durations; 2 separate studies vs. 1	Originally cost allocation was [****]
Vendor Management	[****]	[****]	Added [****] contract payment management	[****]
Data Management				
Database Archiving	[****]	[****]		
Data Cleanup (DM)	[****]	[****]	[****].	
Data Management: Database Quality Control Inspection	[****]	[****]	[****]	
Database Design	[****]	[****]	[****]	Assume NA DB designed first with efficiencies taken for similar eCRF pages/edit specs in both studies. We will reconsider upon receipt of synopsis with final assumptions. Assumed one data base originally and now two
Dictionary Coding	[****]	[****]	Increased number of subjects, therefore increased number of terms overall	

Task	Original (US Dollars)	New NA (US Dollars)	Assumption Changes influencing the change in the budget	Additional comments
Edit Check Programming	[****]	[****]	Increased number of edit checks due to increased CRF size	Assume NA DB designed first with efficiencies taken for similar eCRF pages/edit specs in both studies. We will reconsider upon receipt of synopsis with final assumptions.
Electronic Data Import	[****]	[****]		[****]
Case Report Form	[****]	[****]		[****]
Data/Document Transfers				
EDC Fees	[****]	[****]		[****]
Statistical Analysis and Table Generation				
Electronic Data Transfer	[****]	[****]	[****]	
Interim Analysis/Report Preparation and Review	[****]	[****]	[****]	
Statistical Analysis Plan Preparation/Review	[****]	[****]	[****]	Originally cost allocation was to [****]
Table Generation	[****]	[****]	[****]	Originally preparing [****]
Table/Listings Review	[****]	[****]	[****]	Reviewing [****]separate sets of T&Ls.
Clinical Study Report				
Clinical Study Report Preparation/Review	[****]	[****]		Assumes [****]separate study reports, originally assumed one.
Team Meetings				
Project Team Meetings - Internal Meetings	[****]	[****]	[****]	
Project Team Meetings - Client Teleconferences	[****]	[****]	[****]	
Project Team Meetings - Kick-off Meeting	[****]	[****]	[****]	
Total Direct Costs	[****]	[****]		
Total Costs				
[****]				

Exhibit B Payment Schedule

Milestone Payment Schedule
7810962 Canada Inc (11ISB001)

[****]

Pass Through Costs:

(a) [****] percent ([****]%) of the average estimated pass through costs equaling $[****] (exclusive of funds for investigator grants); will be due and payable upon execution of this Agreement. These funds will be drawn down as necessary to pay incurred pass through costs and will be replenished to the full [****]% once the amounts held are [****]% depleted. This process to continue until the end of the study.

(b) The pass-through costs above will be as provided in the expenses estimate and any additional costs will be pre-approved by the Company. The pass-through costs will be billed as incurred by inVentiv Health Clinical.

(c) Any unused funds held for pass through costs will be returned within ninety (90) days from the date of the final reconciliation.

3. Investigator Grants:

(a) [****] percent ([****]%) of the estimated grant payments for the study, equaling $[****], will be invoiced upon commencement of services. These funds will be drawn down as the Investigator Grants are paid and the full [****]% will be replenished once the amounts held are [****]% depleted). This process to continue until the end of the study.

(b) inVentiv Health Clinical will submit invoices for the amounts paid to investigators during the previous month. Any amount exceeding the estimate investigator grant payments will be pre-approved by the Company.

(c) inVentiv Health Clinical will not make payments to investigators without having sufficient funds available in advance.

(d) Any unused funds will be returned within ninety (90) days from the date of the final reconciliation

4. Payment Conditions:

(a) For all Services, pass through expenses and investigator grants invoiced, payments are due net thirty (30) days from invoice date as set forth in Terms, Item 2 of the Agreement. In the event of a dispute, all undisputed portions of the invoice(s) are due within the above stated terms

(b) Payments shall be made in the currency identified above and shall be made free of any applicable local withholding taxes, charges or remittance fees. Invoices will be inclusive of applicable taxes as determined by local laws and regulations

(c) InVentiv Health Clinical reserves the right to charge interest against any unpaid overdue balance at the rate of [****] percent ([****]%) per month

(d) All services and pass-through payments should be sent via wire or ACH

EXHIBIT 4.15

Confidential

RedHill Biopharma Ltd.
(the "Company")

OPTION PLAN (2010)

Originally Adopted by the Board of Directors on February 4, 2010,
As been amended from time to time, and
As most recently amended by the Board of Directors on May 2, 2013

TABLE OF CONTENTS

1. **PREAMBLE**

1.1 This plan, as amended from time to time, shall be known as the RedHill Biopharma Ltd. Option Plan (2010)" (the **"Plan"**). The purpose and intent of the Plan is to provide incentives to employees, directors and/or service providers including advisors of the Company and/or of subsidiaries and/or affiliated companies of the Company (each a **"Related Company"** and collectively, **"Related Companies"**) by providing them with the opportunity to purchase ordinary shares and/or American Depositary Shares of the Company, as determined pursuant to the Plan, and such other securities as may be substituted for such shares pursuant to this plan (any of the foregoing "**Shares**").

1.2 The Plan is intended to enable the Company to grant options under various and different tax regimes, including, without limitation: (i) pursuant and subject to Section 102 of the Israeli Income Tax Ordinance (New Version), 1961 (the "**Income Tax Ordinance**") or any provision which may amend or replace it and any regulations, rules, orders or procedures promulgated thereunder (collectively, "**Section 102**") and to designate them as either grants made through a trustee or not through a trustee; (ii) pursuant and subject to Section 3(i) of the Income Tax Ordinance; (iii) as "incentive stock options" within the meaning of Section 422 of the United States Internal Revenue Code of 1986, as amended ("**Incentive Stock Options**" and the "**Code**", respectively); (iv) as options to U.S. residents, which would not qualify as Incentive Stock Options ("**Non-Qualified Stock Options**"); (v) to grantees in jurisdictions other than Israel and the United States; and (vi) as restricted shares.
The Company, however, does not warrant that the Plan will be recognized by the income tax authorities in any jurisdiction or that future changes will not be made to the provisions of applicable laws, or rules or regulations which are promulgated from time to time thereunder, or that any exemption or benefit currently available, whether pursuant to Section 102 or otherwise, will not be abolished.

1.3 The Board of Directors of the Company (the "**Board**") shall have the authority to make any requisite adjustments in the Plan and determine the relevant terms in any Agreement (as defined in Section 7 below) in order to comply with the requirements of any relevant tax regime. Furthermore, should any provision of Section 102 be amended, such amendment shall be deemed included in the Plan with respect to options granted in the context of Section 102. Where a conflict arises between any section of the Plan, the Agreement or their application, and the provisions of any relevant tax law, rule or regulation, whether relied upon for tax relief or otherwise, the Board in its sole discretion shall determine the necessary changes to be made to the Plan and its determination regarding this matter shall be final and binding.

1.4 The Plan contemplates the grant of option awards by the Company both as a private company and as a company whose securities are publicly-traded. In the event the Company's securities should be registered for trading on the Tel Aviv Stock Exchange, the New York Stock Exchange, any other stock exchange or an electronic quotation system, whether in Israel, the USA or elsewhere, the options allotted in accordance with the Plan may be made conditional to any requirement or instruction of the stock exchange authorities or of any other relevant authority acting pursuant to applicable law as shall exist from time to time. In such case, by means of a Board resolution, the Plan and the Agreements prepared pursuant hereto, may be amended as necessary to meet such requirements. In the event of a contradiction between any such amendment and the Plan's provisions, the amendment shall prevail.

2. **ADMINISTRATION OF THE PLAN**

2.1 The Plan shall be administered by the Board and/or by any committee of the Board so designated by the Board. Any subsequent references herein to the Board shall also mean any such committee, if appointed and, unless the powers of the committee have been specifically limited by law or otherwise, such committee shall have all of the powers of the Board granted herein. Without derogating from the generality of the foregoing, the Board shall have the authority to designate grants made pursuant to Section 102 as either grants made through a trustee or not through a trustee and to determine (and from time to time change, subject to Section 102) the tax route applicable to options granted through a trustee pursuant to Section 102 (e.g., the capital gains route or the employment income route) and to make any other elections with respect to the Plan pursuant to applicable law. Subject to Sections 4 and 15, the Board shall have plenary authority to determine the terms and conditions of all options (which need not be identical), including, without limitation, whether the options will be exercisable into ordinary shares of the Company or into American Depositary Shares, the purchase price of the Shares covered by each option, the identity of those to whom, and the time or times at which, options shall be granted, the number of Shares to be subject to each option, whether an option shall be granted pursuant to Section 102 or otherwise and when an option can be exercised and whether in whole or in installments. Subject to Section 15, the Board shall have plenary authority to construe and interpret the Plan, to prescribe, amend and rescind the rules and regulations relating to it and to make all other determinations deemed necessary or advisable for the administration of the Plan. All determinations and decisions of the Board pursuant to the provisions of the Plan and all related orders and resolutions of the Board shall be final, conclusive and binding on all persons, including the Company, its shareholders, grantees and their estates and beneficiaries.

2.2 Any directive or notice signed by a member of the Board shall constitute conclusive proof and authority for every act or decision of the Company.

2.3 No director or officer of the Company shall be personally liable or obligated to any grantee as a result of any decision made and/or action taken with respect to the Plan or its execution.

3. [Reserved]

4. **OPTION EXERCISE PRICES**

The consideration to be paid by a grantee for each Share purchased by exercising an option (the **"Option Exercise Price"**) shall be as determined by the Board on the date of grant, provided that the Option Exercise Price shall not be less than the nominal value of the Shares subject to the option, and if on the date of grant the Company's Shares are listed on any established stock exchange or a national market or quotation system, then except as otherwise determined by the Board, the Option Exercise Price shall not be less than the closing price on the date of grant on the Tel Aviv Stock Exchange. The Option Exercise Price shall be denominated in the currency of the primary economic environment of, either the Company or the grantee (that is the functional currency of the Company or the currency in which the grantee is paid) as determined by the Company.

The Board may, in its discretion, grant to the holder of an outstanding option, in exchange for the surrender and cancellation of such option, a new option having an Option Exercise Price lower than provided in the option so surrendered and canceled, and containing such other terms and conditions as the Board may prescribe in accordance with the provisions of this Plan provided that such new Option Exercise Price shall not be less than the nominal value of the Shares subject to the new option.

5. **EXCLUSIVITY OF THE PLAN**

Unless otherwise determined by the Board in any particular instance as part of the Agreement, each grantee hereunder will be required to declare and agree that all prior agreements, arrangements and/or understandings with respect to options to purchase Shares of the Company which have not actually been granted prior to execution of the Agreement shall be null and void and that only the provisions of the Plan and/or the Agreement shall apply.

Notwithstanding the above, the adoption of this Plan, by itself, shall not be construed as amending, modifying or rescinding any incentive arrangement previously approved by the Board or as creating any limitations on the power of the Board to adopt such other incentive arrangements as it may deem desirable, including, without limitation, the granting of options otherwise than under this Plan, and such arrangements may be either applicable generally or only in specific cases.

6. **GRANT OF THE OPTIONS TO THE TRUSTEE; VOTING OF SHARES**

6.1 The Board shall appoint a trustee for the purposes of this Plan, which trustee shall be approved, with respect to grants designated as grants made through a trustee pursuant to Section 102, in accordance with Section 102 (the "**Trustee**"). The Trustee shall have all the powers provided by law, Section 102 and the Plan and shall act pursuant to the provisions thereof, as they shall apply from time to time. The Company shall pay the Trustee a fee as shall be agreed between the Trustee and the Company.

6.2 Unless otherwise determined by the Board, all option awards shall be issued by the Company in the name of the Trustee and the Share certificates representing any Shares issued pursuant to options exercised hereunder, and any and all other or additional rights deriving in connection therewith, if any, such as, but not limited to, bonus Shares (Share dividends) ("**Additional Rights**"), shall be issued by the Company in the name of the Trustee in trust for the designated grantee and shall be deposited with the Trustee, held by him or her and registered in his or her name in the register of members of the Company for such period as determined by the Board but, in the case of grants designated as grants made through a trustee pursuant to Section 102, not less than the period required, or approved, with respect thereto pursuant to Section 102, as shall be in effect from time to time (the "**Required Holding Period**").

Furthermore, and without derogating from the aforesaid or any other provision hereof, with respect to options granted which were designated as made through a trustee pursuant to Section 102: (i) they may not be sold until the end of the Required Holding Period, unless otherwise allowed or determined by the Israeli tax authorities; and (ii) all Additional Rights will be subject to the same tax route applicable to the original option.

6.3 Options granted and designated as grants made through a trustee pursuant to Section 102 will be held by the Trustee and registered in his name in trust for the designated grantee, for not less than the Required Holding Period.

6.4 Options granted hereunder shall not confer upon the holder thereof any of the rights of a shareholder of the Company with respect to the Shares subject to such options until such Shares are issued and registered in the name of the holder upon exercise of the options.

6.5 For as long as any Shares are held by the Trustee or registered in his name or for as long as the certificates representing any Shares are held by the Trustee, the Trustee alone shall be entitled to receive every notice to which a shareholder is entitled, or to demand any information, and any financial and/or other report to which a shareholder is entitled from the Company, and only he or whomever he shall designate pursuant to the Proxy and Power of Attorney referred to and as defined in Section 10.2 below (the **"Attorney"**), shall be entitled to exercise every other right of the shareholders vis-a-vis the Company including the right to participate in and to vote at all shareholders' meetings. No grantee shall be entitled to exercise any of these rights as shareholder nor make any demand or request of the Trustee and/or of the Attorney in this regard.

6.6 Shares registered in the Trustee's name shall be represented at all meetings of shareholders of the Company and shall be voted by the Trustee or the Attorney in the same manner, proportionately, as the other shareholders of the Company voting on such matter.

6.7 Nothing in the foregoing provisions shall derogate from the power of the Board to grant options to the Trustee otherwise than under the provisions of Section 102 or to grant options to grantees directly otherwise than through the Trustee or on terms which differ from those specified above or to approve the transfer of Shares from the Trustee to the name of any grantee(s) upon such conditions as shall be determined by the Board.

7. OPTION AGREEMENT; TERMINATION OF EMPLOYMENT

Unless otherwise determined by the Board, every grantee shall be required to sign grant letter or other documents as shall be determined by the Board, in the form approved by the Board (the "**Agreement**").

The Agreement shall specify the type of option award granted and whether it constitutes an option pursuant to Section 102, and if so, under which regime, an option pursuant to Section 3(i) of the Income Tax Ordinance, an Incentive Stock Option, a Non-Qualified Stock Option or otherwise. The Agreement need not be identical with respect to each grantee. The following terms, however, shall apply to all options, unless expressly otherwise decided in respect of a particular option:

7.1 The Option Exercise Price shall be paid by the grantee to the Company no later than the date of exercise of the option unless otherwise determined in the Agreement.

7.2 The grantee shall have no right of first refusal to purchase Shares of the Company which may be offered for sale by shareholders of the Company, and shall have no pre-emptive rights to purchase Shares which are being allotted or shall in the future be allotted by the Company, to the extent any such rights otherwise exist.

7.3 The option and/or the right to the option are personal and except insofar as is specified in this Plan, and, where applicable, subject to Section 102, may not be transferred, assigned, pledged, withheld, attached or otherwise charged either voluntarily or pursuant to any law, except by way of transfer pursuant to the laws of inheritance, and no power of attorney or deed of transfer, whether the same has immediate effect or shall take effect on a future date, shall be given with respect thereto. During the lifetime of the grantee the option may only be exercised by the designated grantee or, if granted to the Trustee, by the Trustee on behalf of the designated grantee. A note as to the provisions of this sub-section or a legend may appear on any document which grants the option and in particular in the Agreement, and also on any Share certificate.

7.4 The right to exercise the option is granted to the Trustee on behalf of the grantee. Unless otherwise provided in the Agreement, vesting shall be in installments, gradually over a period of four (4) years from the date of grant of the option or such other period or periods as determined by the Board. Unless otherwise determined, at the conclusion of each period for the exercise of the option as determined in the Agreement ("**Vesting Periods**"), the option may, from time to time, be exercised in relation to part or all the Shares allocated for that period in such manner that at the end of each year following the granting of the option the Trustee shall, in the absence of a contrary determination in the Agreement, be entitled to exercise on behalf of the grantee and at his or her request up to one third (1/4) of the Shares subject to the option.

In addition, during each of the Vesting Periods, the option may be exercised in relation to all or part of the Shares allocated for any previous Vesting Period in which the option was not fully exercised, provided, subject to the provisions of Section 7.6 hereof, that at the time of the exercise of the option the grantee has continued to be employed by or to serve as a director of or provide services to, the Company or a Related Company on a continual basis from the date of the grant thereof until the date of their exercise. After the end of the Vesting Periods and during the balance of the option period, the option may be exercised, from time to time, in relation to all or part of the Shares which have not at that time been exercised and which remain subject to the option, subject to the provisions of Section 7.6 hereof and to any condition in the Agreement, if such exists, which provides a minimum number of Shares with respect to which the option may be exercised and any provision which determines the number of times that the Trustee may send the Company notice of exercise on behalf of the grantee in respect of the option. The Board shall be entitled at any time to shorten the vesting schedule or any Vesting Period.

7.5 The Board may determine at its sole discretion, that any grantee shall be entitled to receive the options, through the Trustee, pursuant to the provisions of this Plan or, subject to the provisions of Section 102 as relevant, directly in the name of the grantee, immediately upon execution of the Agreement or on such other date or dates as the Company has undertaken towards such grantee. In the event that a grantee is exempt from the Vesting Periods (pursuant to the provisions of Section 7.4), the Board shall be entitled, subject to the provisions of Section 102 as relevant, to determine that where the grantee does not comply with the conditions determined by the Board or ceases to be an employee of the Company or a Related Company, the Trustee, the Company or a Related Company shall have the right to repurchase the Shares from the grantee for nominal or any other consideration paid by the grantee or as otherwise determined by the Board at the time of grant. The Board may set additional conditions to this right of repurchase, including the provision of appropriate arrangements for the monies which shall be available to the Trustee or a Related Company or others for the purpose of the repurchase and may set conditions with respect to the voting rights of the grantee, rights of first refusal or pre-emptive rights to purchase Shares in the Company, to the extent such rights exist, the grantees right to receive reports or information from the Company, and the grantee's right to a dividend in respect of Shares which are subject to a right of reacquisition as aforesaid. For as long as the foregoing conditions of the Board (including a minimum period of employment as a condition for the lapse of the right to reacquisition) have not been complied with, the grantee shall not be entitled to sell or charge or transfer in any other manner the Shares which are subject to the right of reacquisition. As security for the compliance with this undertaking the Share certificate will be deposited with the Trustee who will release the same to the grantee only after the grantee becomes entitled to the Shares and the same are not subject to any other restrictive condition.

7.6 Termination of Employment

7.6.1 If a grantee ceases to be an employee, director or service provider (or, if relevant, an employee of a service provider) of the Company or a Related Company, other than: (i) by reason of death, disability (as determined by the Board in its absolute discretion) or retirement as provided in Section 7.6.3 below; or (ii) for Cause (as defined in Section 8.2 below) (at which time the option shall terminate immediately upon the earlier of such cessation or notice of cessation); the option shall remain exercisable for a period of ninety (90) days following the earlier of such cessation or notice of cessation (but only to the extent exercisable at termination of employment and not beyond the scheduled expiration date), unless the Agreement provides otherwise.

7.6.2 If the employment or the director or service-provider relationship of a grantee is terminated by reason of death, disability (as determined by the Board in its absolute discretion) or retirement after age 60 with the approval of the Board, the option shall remain exercisable for a period of twenty four (24) months following such termination (but only to the extent exercisable at termination of employment and not beyond the scheduled expiration date).

7.6.34 The Board may determine whether any given leave of absence constitutes a termination of employment. Options awarded under this Plan shall not be affected by any change of employment so long as the grantee continues to be an employee, director or service-provider, as applicable, of the Company or a Related Company.

7.6.4 Notwithstanding the foregoing, the Board may in its absolute discretion, extend the period of exercise of the option by a grantee or grantees for such time as it shall determine either with or without conditions.

8. **ACCELERATION OF AN OPTION; LIQUIDATION**

8.1 Acceleration in the Event of Sale of Assets, Certain Mergers. In the event of: (i) a sale of all or substantially all of the assets of the Company; or (ii) a consolidation or merger of the Company in which the Company is not the continuing or surviving corporation and the continuing or surviving corporation (or, if such transaction is effected through a subsidiary, the parent of such continuing or surviving corporation), does not assume the option or substitute it with an appropriate option in the continuing or surviving corporation (or in the parent as aforesaid), then, notwithstanding any contrary Vesting Periods in any Agreement or in this Plan, and unless in each case: (A) the applicable Agreement provides otherwise; or (B) the Board determines otherwise, all of the outstanding options held by or for the benefit of any grantee whose vesting dates fall within the first twelve (12) months thereafter shall be accelerated and become vested and exercisable immediately prior to the consummation or closing of such proposed action.

8.2 Acceleration in the Event of a Significant Event. If a "Significant Event", as defined below, shall occur, and the employment of a grantee with the Company or a Related Company is terminated by the Company or a Related Company within twelve (12) months thereafter, other than for "Cause" as defined below; and unless: (i) the applicable Agreement provides otherwise; or (ii) the Board determines otherwise, all of the outstanding options held by or for the benefit of any grantee whose vesting dates fall within the first twelve (12) months thereafter shall be accelerated and become immediately vested and exercisable.

Each of the following shall be a "**Significant Event**": a consolidation or merger of the Company with or into another corporation in which the Company is the continuing or surviving corporation or in which, if the Company is not the continuing or surviving corporation, the continuing or surviving corporation (or, if such transaction is effected through a subsidiary, the parent of such continuing or surviving corporation) assumes the option or substitutes it with an appropriate option in the surviving corporation (or in the parent as aforesaid).

The term "**Cause**" shall mean, for the purposes hereof, conviction (whether following trial, by plea of guilty or failure to contest prosecution) in a criminal proceeding of (i) a misdemeanor involving fraud, false statements or misleading omissions, embezzlement, bribery, forgery or extortion; or (ii) a felony; or (iii) an equivalent charge to those in (i) and (ii) above in jurisdictions which do not use those designations.

8.3 Liquidation; Merger. Unless otherwise determined by the Board, in the event of: (i) the proposed liquidation or dissolution of the Company; or (ii) a consolidation or merger as described in Section 8.1 (ii) above; all outstanding options (including, without limitation, any options accelerated pursuant to Section 8.1 above) will terminate and expire immediately upon to the consummation or closing of such proposed action. Without derogating from any other right or authority of the Board hereunder, the Board may, in connection with any proposed liquidation or dissolution, or in connection with any merger or consolidation as aforesaid, determine any other date and time upon which any outstanding option will terminate and may also provide for the acceleration and vesting of, and right to exercise, any option which would not otherwise be exercisable.

8.4 Acceleration in the Event of a Takeover. In the event of a Takeover (as defined below) of the Company, all outstanding options granted by the Company under the Plan shall be fully accelerated and become vested and exercisable on the date the Takeover becomes effective. For purpose of this Section 8.4, the term "Takeover" shall mean an event in which any person, entity or group that was not an Interested Party, as defined in the Israeli Securities Law – 1968 (the "Securities Law"), on the date of the initial public offering of the Company's securities on the Tel Aviv Stock Exchange, shall become a Controlling Shareholder. "Controlling Shareholder" for these purposes shall be defined as in the Securities Law.

9. **TERM OF OPTIONS; EXERCISE**

9.1 The term of each option shall be for such period as the Board shall determine, but not more than ten (10) years from the date of grant thereof or such shorter period as is prescribed in Section 7.6 or 8.3 hereof or, with respect to Incentive Stock Options, as prescribed in Section 4 above.

9.2 A grantee who desires that the Trustee exercise an option granted to the Trustee on his or her behalf shall so instruct the Trustee in writing in the form annexed hereto as **Appendix A** or in such other form as shall be approved by the Board from time to time. The notice shall be accompanied by, or specify the arrangements for, payment of the full Option Exercise Price of such Shares as provided in the Agreement. The Company may require as a condition to the exercise of an option that the grantee pay or otherwise make arrangements to the Company's satisfaction, for the payment of the tax and other obligatory payments applicable to him or her (including all sums payable arising out of or in connection with the Company's obligation to deduct tax and other obligatory payments at source) pursuant to applicable law and the provisions of the Plan. The Company may also require that the grantee provide or make such representations and agreements as to grantee's investment intent and such other matters as the Company may deem necessary, advisable or appropriate at such time. Upon receipt of all the requisite documents, approvals and payments from the grantee, including sufficient proof of payment or other arrangement with respect to the payment of any applicable taxes in form satisfactory to the Company and the Trustee, the Trustee shall deliver a notice to the Company in the form annexed hereto as **Appendix B** or in such other form as shall be approved by the Board from time to time, whereupon the Company shall allot the Shares in the name of the Trustee.

9.3 A grantee who desires to exercise an option granted directly to him or her (and not through the Trustee) shall so notify the Company in writing in such form as shall be prescribed by the Board from time to time. As a condition for the exercise of the option, the grantee shall pay or otherwise make arrangements, to the Company's and Trustee's satisfaction, for the payment of the tax and other obligatory payments applicable to him or her (including all sums payable by the Company arising out of its obligation to deduct tax and other obligatory payments at source) pursuant to applicable law and the provisions of the Plan. Upon receipt of all the requisite documents, approvals and payments from the grantee, including sufficient proof of payment or other arrangement with respect to the payment of any applicable taxes in form satisfactory to the Company and the Trustee, the Company shall allot the Shares in the name of the grantee.

9.4 Without limiting the foregoing, the Board may, with the consent of the grantee, from time to time cancel all or any portion of any option then subject to exercise, and the Company's obligation in respect of such option may be discharged by: (i) payment to the grantee or to the Trustee on behalf of the grantee of an amount in cash equal to the excess, if any, of the Fair Market Value (as defined below) of the relevant Shares at the date of such cancellation subject to the portion of the option so canceled over the aggregate Option Exercise Price of such Shares; (ii) the issuance or transfer to the grantee or to the Trustee on behalf of the grantee of Shares of the Company with a Fair Market Value at the date of such transfer equal to any such excess; or (iii) a combination of cash and Shares with a combined value equal to any such excess, all as determined by the Board in its sole discretion.

For purposes hereof, the "**Fair Market Value**" of the Ordinary Shares shall mean, as of any date, the last reported sale price, on that date, of the Ordinary Shares of the Company on the principal securities exchange on which such Shares are then traded, or, in the event that no sales of such Shares took place on such date, the last reported sale price of such Shares on such principal securities exchange on the most recent prior date on which a sale of Shares took place; provided, however, that if such Shares are not publicly traded on the date as of which Fair Market Value is to be determined, "Fair Market Value" of the Ordinary Shares shall mean the value as determined in good faith by the Board.

Without derogating from the above, solely for the purpose of determining the tax liability pursuant to Section 102(b)(3) of the Income Tax Ordinance, if at the date of grant the Company's Shares are listed on any established stock exchange or a national market or quotation system, the Fair Market Value of an Ordinary Share at the date of grant shall be determined in accordance with the average value of the Company's Shares during the thirty (30) trading days preceding the Date of Grant, or in the thirty (30) trading days following the date of registration for trading, as the case may be.

9.5 Exercise of options will not be permitted on the effective date for distribution of bonus Shares, rights offering, distribution of a dividend, capital consolidation, capital split or capital reduction (all of the above will be: "**Effective Date**" and "**Company Event**", respectively).

If the Ex Date of a Company Event precedes the Effective Date of a Company Event, the exercise of options will not be permitted on the Ex Date as mentioned.

Ex Date - the first trading day, in which the securities are traded without the right to any payment under a Company Events.

10. **TAXATION**

10.1 General

The grantee shall be liable for all taxes, duties, fines and other payments which may be imposed by the tax authorities (whether in Israel or abroad) and for every obligatory payment of whatever source (including, but not limited to, social security, health tax, etc., as may be applicable) in respect of the options (including, without limitation, upon the grant of the options, the exercise of the options, or the registration of the Shares in the grantee's name) or dividends or any other benefit in respect thereof and/or for all charges which shall accrue to the grantee, the Company, any Related Company and/or to the Trustee in connection with the Plan, the options, or any act or omission by the grantee or the Company in connection therewith or pursuant to any determination by the applicable tax or other authorities, including, without limitation, any such payments required to be made by the Company as the result of any sale by the grantee of Shares which were designated as made through a trustee pursuant to Section 102 prior to the end of the Required Holding Period. Notwithstanding the foregoing, if the Company elects the "employment income" route for options granted through a trustee pursuant to Section 102, the Company or the Related Company, as applicable, shall pay, at its expense, any social security payments payable by the employer with respect to options so granted to the extent required as a result of such choice.

10.2 Deduction at Source

The Company (including any Related Company) and/or the Trustee shall have the right to withhold or to require the grantee to pay an amount in cash or to retain or sell without notice Ordinary Shares in value sufficient to cover any tax or obligatory payment required by any governmental or administrative authority to be withheld or otherwise deducted and paid with respect to the options or the Ordinary Shares subject thereto (including, without limitation, upon their grant, exercise, issuance or sale or the registration of the Ordinary Shares in the grantee's name) or with respect to dividends or any other benefits in respect thereof ("**Withholding Tax**"), and to make payment (or to reimburse itself or himself for payment made) to the appropriate tax or other authority of an amount in cash equal to the amount of such Withholding Tax. Notwithstanding the foregoing, the grantee shall be entitled to satisfy the obligation to pay any Withholding Tax, in whole or in part, by providing the Company and/or the Trustee with funds sufficient to enable the Company and/or the Trustee to pay such Withholding Tax.

10.3 Certificate of Authorization of Assessing Officer

The Company (including any Related Company) or the Trustee shall at any time be entitled to apply to the Assessing Officer, and in the case of a grantee abroad, to any foreign tax authority, and to any other governmental or administrative authority for receipt of their certificate of authorization as to the amount of tax or other obligatory payments which the Company or any Related Company or the grantee or the Trustee is to pay to the tax or other authorities resulting from granting the options, or regarding any other question with respect to the application of the Plan.

10.4 Security for Payment of Taxes

Without derogating from the above, the Company (including any Related Company) and/or the Trustee shall have the right to require that any grantee provide guarantees or other security to the Company's satisfaction to guarantee the payment of any taxes or other obligatory payments which may be payable as a result of or in connection with the grant of an option, the exercise thereof, the registration of any options in the grantee's name (including any sum payable arising out of or in connection with the Company's obligations to deduct tax and other obligatory payments at source); and, with respect to options granted pursuant to Section 102 which were not designated as made through a trustee, if the grantee's employment with the Company or any Related Company is terminated for any reason, the grantee will be obligated to provide the Company with a guarantee or other security to its satisfaction and at its discretion, to cover any tax obligations which may arise thereafter in connection with the disposition of the Shares.

11. **DIVIDENDS**

The Ordinary Shares issued as a result of the exercise of the options shall participate equally with the Company's other Ordinary Shares in every cash dividend that shall be declared and distributed subject to the following provisions:

11.1 A cash dividend shall be distributed only to persons registered in the register of members as shareholders on the record date fixed for the distribution of the dividend.

11.2 A dividend with regard to Shares that are registered in the name of the Trustee shall be paid to the Trustee, subject to any lawful deduction of tax, whether such rate is at the usual rate applicable to a dividend or at a higher rate. The Trustee shall transfer the dividend to the grantees in accordance with instructions that he shall receive from the Company. Alternatively, the Company shall be entitled to pay the dividend directly to the grantee subject to the deduction of the applicable tax.

11.3 Without derogating from the provisions of Sections 10.2 and 11.2 hereof, the Company or the Trustee shall be entitled to set off and deduct at source from any dividend any sum that the grantee owes to the Company (including any Related Company) or the Trustee, whether under the Plan or otherwise, and/or any sum that the grantee owes to the tax or other authorities.

12. **RIGHTS AND/OR BENEFITS ARISING OUT OF THE EMPLOYEE/ EMPLOYER RELATIONSHIP AND THE ABSENCE OF AN OBLIGATION TO EMPLOY**

12.1 No income or gain which shall be credited to or which purports to be credited to the grantee as a result of the Plan, shall in any manner be taken into account in the calculation of the basis of the grantee's entitlements from the Company or any Related Company or in the calculation of any social welfare right or other rights or benefits arising out of the employee/employer relationship. If, pursuant to any law, the Company or any Related Company, shall be obliged for the purposes of calculation of the said items to take into account income or gain actually or theoretically credited to the grantee, the grantee shall indemnify the Company or any Related Company, against any expense caused to it in this regard.

12.2 Nothing in the Plan shall be interpreted as obliging the Company or any Related Company to employ the grantee and nothing in the Plan or any option granted pursuant thereto shall confer upon any grantee any right to continue in the employment of the Company or any Related Company or restrict the right of the Company or any Related Company to terminate such employment at any time. The grantee shall have no claim whatsoever against the Company or any Related Company as a result of the termination of his or her employment, including, without limitation, any claim that such termination causes any options to expire and/or prevents the grantee from exercising the options and/or from receiving or retaining any Shares pursuant to any agreement between him or her and the Company, or results in any loss due to an imposition, or earlier than anticipated imposition, of tax or other liability pursuant to applicable law.

13. **ADJUSTMENTS**

Upon the occurrence of any of the following described events, a Grantee's rights to purchase Shares under the Plan shall be adjusted as hereinafter provided:

13.1 In the event that the Company distributes a **cash dividend**, the effective date for the distribution thereof, will take place after the date of the allocation of the Options to the Trustee for a Grantee, but before the exercise or expiry of the Options, the exercise price shall be decreased in respect of each Option by the amount of the dividend per Share. For the avoidance of doubt, under no circumstances will the exercise price be decreased to a price which is less then the nominal value of an ordinary share of the Company.

13.2 In the event that the Company distributes **bonus Shares**, the effective date for the distribution of which takes place after the date of the allocation of the Options to the Trustee for the Grantee, but before the exercise or expiry of the Options, the number of Shares to which the Grantee is entitled upon the exercise of the Options shall increase by the number of the Shares that the Grantee would have been entitled to as bonus Shares, had he exercised the Options prior to the effective date for the distribution of the bonus Shares. The exercise price of each Option shall not vary as a result of the increase in the number of Shares to which the Grantee is entitled in the wake of the distribution of bonus Shares.

13.3 If rights to acquire any securities whatsoever are offered to Company shareholders by way of **rights**, the Company shall act with a view that the number of Shares that each Grantee is entitled to upon the exercise of the Options will be adjusted multiplying it by the Benefit Ratio.

Benefit Ratio - the closing price of the stock exchange on the Last trading day before the Ex Date divided by the base price of the ex-rights stock.

13.4 In any event of **division or consolidation** of the Company's share capital, or any other corporate capitalization event of a significantly similar nature, the Company shall effect such changes or adjustments as are required to prevent dilution or increase in a Grantee's rights, pursuant to the Plan with respect to the number and class of the Shares in relation to the Options not yet exercised by the Grantee and/or the exercise price of each Option.

13.5 In any event of a **merger**, spin-off and/or any other structural change, Options which have been granted under this Plan, shall be replaced by, or converted to, an alternative option in the Company after such structural change, all at the absolute discretion of the Company's Board.

14. TERM, TERMINATION AND AMENDMENT

Unless the Plan shall theretofore have been terminated as hereinafter provided, the Plan shall terminate on, and no option shall be granted after, the tenth anniversary of the date the Plan is adopted by the Board. The Board may at any time terminate, modify or amend the Plan in such respects as it shall deem advisable. Options granted prior to termination of the Plan may, subject to the terms of the Plan and any Agreement, be exercised thereafter. No amendment or modification of the Plan may, without the consent of the grantee to whom any option shall theretofore have been granted, adversely affect the rights of such grantee under such option.

15. EFFECTIVENESS OF THE PLAN; APPROVALS

The Plan shall become effective as of the date determined by the Board. Notwithstanding the foregoing and Sections 3 and 15 above, in the event that approval of the Plan or any modification or amendment thereto by the shareholders of the Company is required under applicable law or pursuant to applicable stock exchange rules or regulations, such approval shall, to the extent possible, be obtained within the time required under the applicable law, rule or regulation. If such shareholder approval is required in connection with the application of specified tax treatments, the Company shall make reasonable efforts to obtain such approval within the required time.

16. RELEASE OF THE TRUSTEE AND THE ATTORNEY FROM LIABILITY

In no event shall the Trustee or the Attorney be liable to any grantee under the Plan, or to a purchaser of Shares from any grantee with respect to any act which has been or will be carried out in relation to the Plan, its execution and any matter connected thereto or arising therefrom. The grantee will be required to covenant upon signing the Agreement that he or she will not make any claim against the Trustee or the Attorney in any manner whatsoever and on any ground whatsoever and that he or she will expressly agree that if the Trustee or the Attorney are sued by them, then the Trustee or the Attorney shall be entitled by virtue of this Section alone to apply to the court for dismissal of the action against them with costs.

17. **GOVERNING LAWS**

The Plan and all instruments issued thereunder shall be governed by and construed in accordance with the laws of the State of Israel, subject to the provisions of the Code with respect to Incentive Stock Options and, in the event of any ambiguity or conflict, the provisions hereof shall be so construed and applied as to give effect to the intention that any Incentive Stock Option granted will qualify as such under Section 422 of the Code.

* * *

RedHill Biopharma Ltd.

Appendix A
to
RedHill Biopharma Ltd.'s Option Plan (2010), as amended
(Section 9.2)

NOTICE OF EXERCISE

Date: _____

To: ESOP Management and Trust Services Ltd. , By Fax: 972-3-7602636

To: RedHill Biopharma Ltd., Fax: 972-3-5413144 or Email: uri@redhillbio.com

Dear Sir/Madam:

Re: **Notice of Exercise**

I hereby wish to inform you that it is my desire to exercise _____ options ("**Options**") out of the _____ options which were granted on my name on _____ [Date] under the RedHill Biopharma Ltd. Option Plan (2010), as amended ("**Plan**"), and tenders herewith payment of the purchase price for such shares in full.

The exercise price of said Options is USD _____ per share, all in accordance with the Plan and the Israeli Securities Law of 1968 or any state securities laws.

The total amount for the exercise of the Options of USD _____ was paid to RedHill Biopharma by me on the date of _____. I am aware that the exercise of the Options will be done only after RedHill will transfer to you written confirmation that the exercise amount was paid in full.

I am aware that all the shares will be allotted to you, registered in your name and that you will hold all the share certificates representing such shares. Likewise, I am aware of and agree to all the other provisions of the Plan and applicable laws.

Yours sincerely,

Signature: _____

Name: _____

The Receipt of this form by ESOP must be verified by phone (No. 1700-70-ESOP or 972-3-7536823).

RedHill Biopharma Ltd.

Appendix B

to RedHill Biopharma Ltd.'s Employee Option Plan (2010) , as amended

(Section 9.2)

NOTICE OF EXERCISE

Date: _____

RedHill Biopharma Ltd.

Dear Sirs:

Re: **Notice of Exercise**

Please be advised that on the date of _____ we received instruction from _____ ("the Grantee") to exercise _____ options ("**Option**s") out of the _____ options which were granted in his/her name on _____ [Date] under the RedHill Biopharma Ltd. Option Plan (2010), as amended ("**Plan**").

The exercise price of said Options is USD _____ per share, all in accordance with the Plan and the Israeli Securities Law of 1968 or any state securities laws.

The total amount for the exercise of the Options of USD _____ should have been paid to you in full by the Grantee. Upon reception of a written confirmation from you that you received this amount in full, we will exercise the Options for shares and register these shares under the ESOP's name.

Attached to this Notice is the exercise notice sent to us by the Grantee.

Yours sincerely,

ESOP Management and Trust Services Ltd.

Signature: _____

Name: _____

Exhibit 4.17

EXECUTION COPY

SECURITIES PURCHASE AGREEMENT

This SECURITIES PURCHASE AGREEMENT (the "Agreement"), dated as of December 30, 2013, is by and among RedHill Biopharma Ltd., a company limited by shares organized under the laws of the State of Israel (the "Company"), and OrbiMed Israel Partners Limited Partnership, a limited partnership formed under the laws of the State of Israel (the "Buyer").

RECITALS

A. The Company and the Buyer are executing and delivering this Agreement in a transaction not subject to the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), pursuant to Regulation S ("Regulation S") as promulgated by the United States Securities and Exchange Commission (the "SEC") thereunder.

B. The Buyer wishes to purchase from the Company, and the Company wishes to sell to the Buyer, upon the terms and conditions stated in this Agreement, 631,580 units (collectively, the "Units"), each consisting of (i) one American Depositary Share (the "Offered ADSs"), representing 10 ordinary shares, par value NIS 0.01 per share, of the Company (the "Ordinary Shares"); and (ii) a three-year warrant, in the form attached hereto as Exhibit A (the "Warrant"), to purchase 0.4 of an American Depositary Share (the "Warrant ADSs") at an exercise price of $11.00 per ADS. The Units and the Warrant ADSs are referred to herein collectively as the "Offered Securities".

AGREEMENT

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Buyer hereby agree as follows:

1 **PURCHASE AND SALE OF UNITS**.

(a) Purchase and Sale. Subject to the satisfaction (or waiver) of the conditions set forth in Sections 6 and 7 below, the Company shall issue (or caused to be issued) and sell to the Buyer, and the Buyer shall purchase from the Company on the Closing Date (as defined below), the Units.

(b) Closing. The closing of the purchase and sale of the Units (the "Closing") shall occur via an electronic closing in which separate counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument, will first be delivered by a facsimile or electronic mail exchange of signature pages, with originals to follow addressed to each party's counsel. The date and time of the Closing (the "Closing Date") shall be 10:00 a.m., New York time, on the first (1st) Business Day on which the conditions to the Closing set forth in Sections 6 and 7 below are satisfied or waived (or such later date as is mutually agreed to by the Company and the Buyer); provided, however, that this Agreement shall automatically terminate if the Closing shall not have been consummated within 10 calendar days following the date hereof. As used herein, unless otherwise provided, "Business Day" means any day other than a Friday, Saturday, Sunday or other day on which commercial banks in New York, New York are authorized or required by law to remain closed.

(c) Purchase Price. The aggregate purchase price for the Units to be purchased by the Buyer (the "Purchase Price") shall be $6,000,010.00 (or $9.50 per Unit).

(d) Closing Deliveries.

(i) On the Closing Date, the Buyer shall deliver to the Company:

(A) this Agreement, duly executed by the Buyer; and

(B) the Purchase Price for the Units to be issued and sold to the Buyer at the Closing (less the amount permitted to be withheld by the Buyer pursuant to Section 4(c)), payable in United States dollars by wire transfer of immediately available funds in accordance with the Company's written wire instructions.

(ii) On the Closing Date, the Company shall deliver to the Buyer:

(A) this Agreement, duly executed by the Company;

(B) an opinion from Haynes and Boone, LLP, United States legal counsel to the Company, in form and substance reasonably acceptable to the Buyer;

(C) an opinion from Gross, Kleinhendler, Hodak, Halevy, Greenberg & Co., Israeli legal counsel to the Company, in form and substance reasonably acceptable to the Buyer;

(D) unless the Buyer elects to receive the Offered ADSs in book-entry form, one or more American Depositary Receipts registered in the name of the Buyer, or in such nominee name(s) as designated by the Buyer in writing, evidencing the Offered ADSs;

(E) one or more certificates in the name of the Buyer, or in such nominee name(s) as designated by the Buyer in writing, representing the Warrant; and

(F) such other documents and certificates required to be delivered by the Company to the Buyer pursuant to Section 7 hereof.

2 **BUYER'S REPRESENTATIONS AND WARRANTIES**.

The Buyer represents and warrants to the Company that:

(a) Organization; Authority. The Buyer is a limited partnership, duly organized, validly existing and in good standing under the laws of the State of Israel with the requisite power and authority to execute and deliver this Agreement and the Warrant and to consummate the transactions contemplated hereby and thereby and otherwise to carry out its obligations hereunder and thereunder.

(b) Information. The Buyer and its advisors, if any, have been furnished with all materials relating to the business, finances and operations of the Company and materials relating to the offer and sale of the Offered Securities that have been requested by the Buyer. The Buyer and its advisors, if any, have been afforded the opportunity to ask questions of the Company. The Buyer understands that its investment in the Offered Securities involves a high degree of risk. The Buyer has sought such accounting, legal and tax advice as it has considered necessary to make an informed investment decision with respect to its acquisition of the Offered Securities.

(c) No Governmental Review. The Buyer understands that no Israeli, United States federal or state agency or any other government or governmental agency has passed on or made any recommendation or endorsement of the Offered Securities or the fairness or suitability of the investment in the Offered Securities nor have such authorities passed upon or endorsed the merits of the offering of the Offered Securities.

(d) Regulation S. The Buyer understands that the Offered Securities are being offered and sold to it in a transaction not subject to the registration requirements of United States federal and state securities laws in reliance on Regulation S promulgated under the Securities Act and that the Company is relying in part upon the truth and accuracy of, and the Buyer's compliance with, the representations, warranties, agreements, acknowledgments and understandings of the Buyer set forth herein in order to determine the compliance of this transaction with Regulation S and the eligibility of the Buyer to acquire the Offered Securities. In this regard, the Buyer represents and warrants that the Buyer is not a "U.S. Person," as defined in Rule 902 under the Securities Act and, at the time of each of the origination of contact concerning the transactions contemplated by this Agreement and the execution and delivery of this Agreement, the Buyer was outside of the United States.

(e) Transfer or Resale. The Buyer understands that, except as provided in Section 8 hereof, the Offered Securities and the Ordinary Shares represented thereby have not been and will not be registered under the Securities Act or any state securities laws, and may not be offered for sale, sold, assigned or transferred other than (i) outside of the United States accordance with Rule 904 under the Securities Act, (ii) pursuant to an exemption from the registration requirements under the Securities Act, or (iii) pursuant to an effective registration statement under the Securities Act, in each case in compliance with all applicable state securities laws and the securities laws of any other jurisdiction applicable to such sale, assignment or transfer. The Buyer represents that it is acquiring the Offered Securities for its own account for investment purposes only and not with a view to or for distributing or selling such Offered Securities or any part thereof or any interest therein. Buyer acknowledges that no action will be taken in Israel that would permit the offering of the Offered Securities, or the distribution of any prospectus or other offering document, to the public in Israel. The Buyer will not reoffer or resell any of the Offered Securities directly or indirectly to the public in Israel without a prospectus or any exemption therefrom under the Israeli Securities Law.

(f) Validity; Enforcement. This Agreement has been duly and validly authorized, executed and delivered on behalf of the Buyer and constitutes the legal, valid and binding obligation of the Buyer enforceable against the Buyer in accordance with its terms, except as such enforceability may be limited by general principles of equity or applicable bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws relating to, or affecting generally, the enforcement of applicable creditors' rights and remedies.

(g) No Conflicts. The execution, delivery and performance by the Buyer of this Agreement and the consummation by the Buyer of the transactions contemplated hereby will not (i) result in a violation of the organizational documents of the Buyer, (ii) conflict with, or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture or instrument to which the Buyer is a party, or (iii) result in a violation of any law, rule, regulation, order, judgment or decree (including Israeli and U.S. federal and state securities laws) applicable to the Buyer, except in the case of clauses (ii) and (iii) above, for such conflicts, defaults, rights or violations which would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the ability of the Buyer to perform its obligations hereunder.

(h) Certain Trading Activities. The Buyer has not directly or indirectly, nor has any individual, limited liability company, partnership, joint venture, corporation, trust, unincorporated organization, or other entity (each, a "Person") acting on behalf of or pursuant to any understanding with the Buyer, engaged in any transactions in the securities of the Company (including, without limitation, any Short Sales (as defined below) involving the Company's securities) during the period commencing on September 10, 2013 (the date on which the Buyer was first contacted by or on behalf of the Company regarding the specific investment in the Company contemplated by this Agreement) and ending immediately prior to the execution of this Agreement by the Buyer (it being understood and agreed that for all purposes of this Agreement, and, without implication that the contrary would otherwise be true, that neither transactions nor purchases nor sales shall include the location and/or reservation of borrowable shares of Common Stock). "Short Sales" means all "short sales" as defined in Rule 200 promulgated under Regulation SHO under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

(i) Experience of the Buyer. The Buyer, either alone or together with its representatives, has such knowledge, sophistication and experience in business and financial matters so as to be capable of evaluating the merits and risks of the prospective investment in the Offered Securities, and has so evaluated the merits and risks of such investment. The Buyer is able to bear the economic risk of an investment in the Offered Securities and, at the present time, is able to afford a complete loss of such investment.

(j) Classified Investor. The Buyer is qualified as a "Classified Investor" under the First Supplement of the Israeli Securities Law of 1968, as amended (the "Israeli Securities Law"), by complying with the definition of a "Venture Capital Fund" under such First Supplement. For this purpose, a "Venture Capital Fund" shall mean a corporation whose main business is investing in corporations, which, at the time the investment is made, are primarily engaged in research and development or in the manufacture of innovative and high-tech products or processes, where the risk of investment in such corporations is higher than what is customary for other investments. The Buyer is aware of the implications of the status of being a Classified Investor specified in the First Supplement of the Israeli Securities Law and consents thereto.

3 **REPRESENTATIONS AND WARRANTIES OF THE COMPANY**.

The Company represents and warrants to the Buyer that:

(a) Organization and Qualification. The Company is a corporation limited by shares duly organized and validly existing under the laws of the State of Israel, and has the requisite power and authority to own its properties and to carry on its business as described in the SEC Documents (as defined below). The Company is duly qualified to do business as a foreign entity and is in good standing in every jurisdiction in which its ownership of property or the nature of the business conducted by it makes such qualification necessary, except to the extent that the failure to be so qualified or be in good standing would not have a Material Adverse Effect. As used herein, "Material Adverse Effect" means any material adverse effect on (i) the business, properties, assets, liabilities, results of operations, financial condition or prospects of the Company or (ii) the authority or ability of the Company to perform any of its obligations under this Agreement or the Warrant. The Company does not have any Subsidiaries (as defined in Rule 1-02 of Regulation S-X promulgated by the SEC).

(b) Authorization; Enforcement; Validity. The Company has the requisite power and authority to enter into and perform its obligations under this Agreement and the Warrant and to issue the Offered Securities in accordance with the terms hereof and thereof. The execution and delivery of this Agreement and the Warrant by the Company and the consummation by the Company of the transactions contemplated hereby and thereby (including, without limitation, the issuance of the Offered ADSs, the issuance of the Warrant and the reservation for issuance and issuance of the Warrant ADSs) have been duly authorized by the Company's board of directors and, except for (i) the requirements of Section 8(a) hereof, (ii) the 6-K Filing (as defined below), (iii) the approval of the listing of the Ordinary Shares underlying the Offered ADSs on the Tel Aviv Stock Exchange (the " TASE") and (iv) the approval in principle, subject to the exercise of the Warrant, to the listing of the Ordinary Shares underlying the Warrant ADSs on the TASE ((i) through (iv), collectively, the "Required Approvals"), no further filing, consent or authorization is required by the Company, its board of directors or its stockholders or other governing body of the Company. This Agreement has been, and the Warrant will be at or prior to the Closing, duly executed and delivered by the Company, and each constitutes or, when executed and delivered will constitute, a legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as such enforceability may be limited by general principles of equity or applicable bankruptcy, insolvency, reorganization, moratorium, liquidation or similar laws relating to, or affecting generally, the enforcement of applicable creditors' rights and remedies and except as rights to indemnification and to contribution may be limited by U.S. federal or state securities law.

(c) Issuance of Securities. The Ordinary Shares represented by the Offered ADSs have been duly authorized for issuance and sale pursuant to this Agreement and, when issued and delivered by the Company pursuant to this Agreement, will be validly issued, fully paid, and non-assessable and free and clear of all liens, encumbrances, preemptive rights and other claims. The Company has reserved from its duly authorized share capital the maximum number of Ordinary Shares issuable in connection with the Offered ADSs and the Warrant ADSs (other than the Ratchet ADSs). Upon payment of the exercise price therefore pursuant to the terms of the Warrant, the Ordinary Shares represented by the Warrant ADSs will be duly authorized, validly issued, fully paid and nonassessable and free and clear of all liens, encumbrances, preemptive rights and other claims.

(d) Reporting Company; Form F-3; Trading Restrictions under Israeli Law. The Company is eligible to register the Ordinary Shares represented by the Offered ADSs, the Ratchet ADSs (if any), and the Ordinary Shares represented by the Warrant ADSs (together, the "Registrable Securities") for resale by the Buyer on a registration statement on Form F-3 under the Securities Act. The Company is subject to the reporting requirements of the Exchange Act and has filed or furnished, as applicable, all reports required thereby. To the Company's knowledge, there do not exist any facts or circumstances (including without limitation any required approvals or waivers or any circumstances that may delay or prevent the obtaining of accountant's consents) that reasonably could be expected to prohibit or delay in any material respect the preparation and filing of a Registration Statement with respect to the resale of the Registrable Securities by the Buyer required to be filed by the Company pursuant to Section 8 hereof. None of the Offered ADSs, the Warrant ADS, or the Ordinary Shares underlying the Offered ADSs and the Warrant ADSs are, or upon issuance will be, subject to any transfer restrictions under Israeli law except for restrictions on resale of such securities on the TASE pursuant to the Israeli Securities Law and the regulations promulgated thereunder.

(e) No Conflicts. The execution, delivery and performance of this Agreement and the Warrant by the Company and the consummation by the Company of the transactions contemplated hereby and thereby (including, without limitation, the issuance of the Offered ADSs, the Warrant and the Warrant ADSs and the reservation for issuance of the Warrant ADSs) will not (i) result in a violation of the Articles of Association or other organizational documents of the Company, (ii) conflict with, or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture or instrument to which the Company is a party or (iii) subject to the Required Approvals, result in a violation of any law, rule, regulation, order, judgment or decree (including, without limitation, foreign, federal and state securities laws and regulations and the rules and regulations of the NASDAQ Capital Market ("NASDAQ") and the TASE) applicable to the Company or by which any property or asset of the Company is bound or affected except, in the case of clause (ii) or (iii) above, to the extent that such violations could not reasonably be expected to have a Material Adverse Effect.

(f) Consents. The Company is not required to obtain any consent from, authorization or order of, or make any filing or registration with (other than the Required Approvals), any court, governmental agency or any regulatory or self-regulatory agency or any other Person in order for it to execute, deliver or perform any of its obligations under, or contemplated by, this Agreement or the Warrant, in each case, in accordance with the terms hereof or thereof. All consents, authorizations, orders, filings and registrations which the Company is required to obtain at or prior to the Closing have been obtained or effected on or prior to the Closing Date, and the Company is not aware of any facts or circumstances that would reasonably be expected to prevent the Company from obtaining or effecting any registration, application or filing contemplated by this Agreement.

(g) Placement Agents. Except for the engagement of Stifel, Nicolaus & Company, Incorporated ("Stifel") and Roth Capital Partners, LLC ("Roth"), whose fees will be paid by the Company in full and will not be the responsibility of the Buyer, the Company has not engaged any placement agent, broker, finder, investment banker or other agent in connection with the offer or sale of the Offered Securities, and no such other placement agent, broker, finder, investment banker or other agent will be entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of the Company.

(h) No Integrated Offering. None of the Company, any of its affiliates or, to the knowledge of the Company, any Person acting on their behalf has, directly or indirectly, made any offers or sales of any security or solicited any offers to buy any security, under circumstances that would require registration of the issuance of any of the Offered Securities under the Securities Act, whether through integration with prior offerings or otherwise, or cause this offering of the Offered Securities to require approval of stockholders of the Company under any applicable stockholder approval provisions, including, without limitation, under the rules and regulations of NASDAQ or the TASE. None of the Company, any of its affiliates or, to the knowledge of the Company, any Person acting on their behalf will take any action or steps that would require registration of the issuance of any of the Offered Securities under the Securities Act or otherwise or cause the offering of any of the Offered Securities to be integrated with other offerings of securities of the Company in such a manner as to require registration of the issuance of any of the Offered Securities under the Securities Act.

(i) No Applicable Takeover Protections. There is no control share acquisition, business combination, poison pill (including any distribution under a rights agreement) or other similar anti-takeover provision under the Articles of Association (other than provisions relating to a staggered board of directors) or the laws of Israel which is or could become applicable to the Buyer as a result of the transactions contemplated by this Agreement, including, without limitation, the Company's issuance of the Offered Securities and the Buyer's ownership of the Offered Securities.

(j) SEC Documents; Financial Statements. The Company has timely filed or furnished, as applicable, all reports, schedules, forms, statements and other documents required to be filed or furnished by it with the SEC pursuant to the reporting requirements of the Exchange Act (all of the foregoing filed or furnished prior to the date hereof and all exhibits included therein and financial statements, notes and schedules thereto and documents incorporated by reference therein being hereinafter referred to as the "SEC Documents"). The Company has delivered to the Buyer or its representatives true, correct and complete copies of each of the SEC Documents not available on the EDGAR system, if any. As of their respective dates, the SEC Documents complied in all material respects with the requirements of the Exchange Act and the rules and regulations of the SEC promulgated thereunder applicable to the SEC Documents, and none of the SEC Documents, at the time they were filed or furnished with the SEC, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. Each press release issued by the Company during the twelve (12) months preceding the date of this Agreement was furnished as an exhibit to a Report of Foreign Private Issuer on Form 6-K furnished by the Company to the SEC. As of their respective dates, the financial statements of the Company included in the SEC Documents complied in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto as in effect as of the time of filing. Such financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"), consistently applied, during the periods involved (except (i) as may be otherwise indicated in such financial statements or the notes thereto or (ii) in the case of unaudited interim statements, to the extent they may exclude footnotes or may be condensed or summary statements) and fairly present in all material respects the financial position of the Company as of the dates thereof and the results of its operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments which will not be material, either individually or in the aggregate).

(k) Independent Accountants. Kesselman & Kesselman, a member firm of PricewaterhouseCoopers International Ltd. ("Kesselman"), which has certified certain financial statements of the Company and delivered its report with respect to the audited financial statements and schedules included in the Company's Annual Report on Form 20-F for the year ended December 31, 2012 (the "Form 20-F") is an independent registered public accounting firm with respect to the Company as required by the Securities Act and the Exchange Act.

(l) Absence of Certain Changes. Since December 31, 2012, except as disclosed in the SEC Documents filed or furnished subsequent to the Form 20-F, there has been no material adverse change and no material adverse development in the business, assets, liabilities, properties, results of operations, financial condition or prospects of the Company. Since December 31, 2012, except as disclosed in the SEC Documents filed or furnished subsequent to the Form 20-F, the Company has not (i) declared or paid any dividends, (ii) sold any assets outside of the ordinary course of business or (iii) made any capital expenditures outside of the ordinary course of business. The Company has not taken any steps to seek protection pursuant to any law or statute relating to bankruptcy, insolvency, reorganization, receivership, liquidation or winding up, nor does the Company have any knowledge or reason to believe that any of their respective creditors intend to initiate involuntary bankruptcy proceedings or any actual knowledge of any fact which would reasonably lead a creditor to do so.

(m) No Undisclosed Events, Liabilities, Developments or Circumstances. To the knowledge of the Company, no event, liability, development or circumstance has occurred or exists, or is reasonably expected to occur or exist, with respect to the Company or any of its respective businesses, properties, liabilities, results of operations, financial condition or prospects that (i) would be required to be disclosed by the Company under applicable securities laws on a registration statement on Form F-1 filed with the SEC relating to an issuance and sale by the Company of any of its securities and which has not been publicly announced, (ii) could have a material adverse effect on the Buyer's investment hereunder or (iii) could reasonably be expected to have a Material Adverse Effect, in each case except as disclosed by the Company to the Buyer in writing on the date hereof (the information so disclosed being referred to herein, collectively, as the "MNPI").

(n) Conduct of Business; Regulatory Permits. The Company is not in violation of any term of or in default under its Articles of Association. The Company is not in violation of any judgment, decree or order or any statute, ordinance, rule or regulation applicable to the Company, and the Company will not conduct its business in violation of any of the foregoing, except in all cases for possible violations which would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Without limiting the generality of the foregoing, the Company is not in material violation of any of the rules, regulations or requirements of NASDAQ or the TASE and has no knowledge of any facts or circumstances that would reasonably be expected to lead to delisting or suspension of the ADSs or the Ordinary Shares, respectively, by NASDAQ or the TASE in the foreseeable future. Since being listed on NASDAQ or the TASE, as applicable, (i) trading in the ADSs and the Ordinary Shares, respectively, has not been suspended by the SEC, the Israeli Securities Authority (the "ISA"), NASDAQ or the TASE and (ii) the Company has not received any communication, written or oral, from the SEC, the ISA, NASDAQ or the TASE regarding the suspension or termination of the listing of the ADSs or the Ordinary Shares, respectively, on NASDAQ or the TASE. The Company possesses all certificates, authorizations and permits issued by the appropriate regulatory authorities necessary to conduct its businesses, except where the failure to possess such certificates, authorizations or permits would not and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect, and the Company has not received any notice of proceedings relating to the revocation or modification of any such certificate, authorization or permit.

(o) Foreign Corrupt Practices. None of the Company or, to the knowledge of the Company, any director, officer, agent, employee or affiliate of the Company is currently subject to any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury ("OFAC"), and the Company will not directly or indirectly use the proceeds of the offering of the Offered Securities hereunder, or lend, contribute or otherwise make available such proceeds to any joint venture partner or other person or entity for the purpose of financing the activities of any person that, to the Company's knowledge, is currently subject to any U.S. sanctions administered by OFAC.

(p) Sarbanes-Oxley Act. The Company is in material compliance with all requirements of the Sarbanes-Oxley Act of 2002 and all rules and regulations promulgated by the SEC thereunder which in any such case are applicable to the Company.

(q) Transactions With Affiliates. Except as disclosed in the SEC Documents, none of the officers, directors, employees or affiliates of the Company is presently a party to any transaction with the Company (other than for ordinary course services as employees, officers or directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any such officer, director, employee or affiliate or, to the knowledge of the Company, any corporation, partnership, trust or other Person in which any such officer, director, employee or affiliate has a substantial interest or is an employee, officer, director, trustee or partner.

(r) Equity Capitalization. The authorized, issued, and outstanding share capital of the Company is as set forth in the SEC Documents (other than for subsequent issuances, if any, pursuant to employee benefit plans described in the Form 20-F or upon exercise of outstanding options or warrants described therein). The Ordinary Shares and the ADSs conform in all material respects to the description thereof contained in the Form 20-F. All of the issued and outstanding Ordinary Shares have been duly authorized and validly issued, are fully paid and non-assessable and have been issued in compliance with applicable Israeli and U.S. federal and state securities laws. None of the outstanding Ordinary Shares were issued in violation of any preemptive rights, rights of first refusal, or other similar rights to subscribe for or purchase securities of the Company. The description of the Company's stock option, stock bonus, and other stock plans or arrangements, and the options or other rights granted thereunder, set forth in the Form 20-F accurately and fairly presents in all material respects the information required to be shown with respect to such plans, arrangements, options, and rights. None of the Company's capital stock is subject to preemptive rights or any other similar rights or any liens or encumbrances suffered or permitted by the Company. Except as disclosed in the SEC Documents (including, for the avoidance of doubt, any quarterly financial statements furnished by the Company as an exhibit to a Report of Foreign Private Issuer on Form 6-K), (i) there are no outstanding options, warrants, scrip, rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities or rights convertible into, or exercisable or exchangeable for, any capital stock of the Company, or contracts, commitments, understandings or arrangements by which the Company is or may become bound to issue additional capital stock of the Company; (ii) there are no outstanding debt securities, notes, credit agreements, credit facilities or other agreements, documents or instruments evidencing Indebtedness (as defined below) of the Company or by which the Company is or may become bound; (iii) there are no financing statements securing obligations in any amounts filed in connection with the Company; (iv) there are no agreements or arrangements under which the Company is obligated to register the sale of any of its securities under the Securities Act (except as set forth in Section 8(a) of this Agreement); (vi) there are no outstanding securities or instruments of the Company which contain any redemption or similar provisions, and there are no contracts, commitments, understandings or arrangements by which the Company is or may become bound to redeem a security of the Company. There are no securities or instruments containing anti-dilution or similar provisions that will be triggered by the issuance of the Offered Securities. The Company does not have any stock appreciation rights or "phantom stock" plans or agreements or any similar plan or agreement.

(s) Indebtedness and Other Contracts. The Company does not have any outstanding Indebtedness and is not a party to any contract, agreement or instrument relating to any Indebtedness. "Indebtedness" means (i) any liabilities for borrowed money or amounts owed (other than trade accounts payable incurred in the ordinary course of business), (ii) all guaranties, endorsements and other contingent obligations in respect of indebtedness of others, whether or not the same are or should be reflected in the Company's balance sheet (or the notes thereto), except guaranties by endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business, and (iii) the present value of any lease payments due under leases required to be capitalized in accordance with IFRS.

(t) Contracts. The Company has filed with or furnished to the SEC all contracts and agreements required to be filed or furnished under the Exchange Act. The Company is not in default under or in violation of (and no event has occurred that has not been waived that, with notice or lapse of time or both, would result in a default by the Company under), nor has the Company received notice of a claim that it is in default under or that it is in violation of, any indenture, loan or credit agreement or any other agreement or instrument to which it is a party or by which it or any of its properties is bound (whether or not such default or violation has been waived), except for such defaults or violations which would not reasonably be expected to have a Material Adverse Effect.

(u) Absence of Litigation. Except as disclosed in the SEC Documents, there is no action, suit or proceeding or, to the knowledge of the Company, any inquiry or investigation before or by NASDAQ, the TASE, any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the Company, threatened against or affecting the Company, the Ordinary Shares, the ADSs, or any of the Company's executive officers or directors. There has not been, and to the knowledge of the Company, there is not pending or contemplated, any investigation by the SEC or the ISA involving the Company or any current or former director or executive officer of the Company. The SEC has not issued any stop order or other order suspending the effectiveness of any registration statement filed by the Company under the Securities Act or the Exchange Act.

(v) Insurance. The Company is insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as management of the Company believes to be prudent and customary in the businesses in which the Company is engaged. The Company has not been refused any insurance coverage sought or applied for, and the Company does not have any reason to believe that it will be unable to renew its existing insurance coverage as and when such coverage expires or to obtain coverage from another internationally recognized insurance provider of similar standing as may be necessary to continue its business at a cost that would not have a Material Adverse Effect.

(w) Employee Relations. Except as disclosed in the SEC Documents, the Company is not a party to, and none of its employees are subject to, any collective bargaining agreement. The Company believes that its relations with its employees are good. No executive officer (as defined in Rule 501(f) promulgated under the Securities Act) or other key employee of the Company has notified the Company that such officer intends to leave the Company or otherwise terminate such officer's employment with the Company. To the knowledge of the Company, no executive officer or other key employee of the Company is, or is now expected to be, in violation of any material term of any employment contract, confidentiality, disclosure or proprietary information agreement, non-competition agreement, or any other contract or agreement or any restrictive covenant, and the continued employment of each such executive officer or other key employee (as the case may be) does not subject the Company to any liability with respect to any of the foregoing matters. The Company is in compliance with all federal, state, local and foreign laws and regulations respecting labor, employment and employment practices and benefits, terms and conditions of employment and wages and hours, except where failure to be in compliance would not, either individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect.

(x) Title. The Company has good and marketable title to all personal property owned by it which is material to the business of the Company, in each case, free and clear of all liens, encumbrances and defects except for those that do not materially affect the value of such property and do not materially interfere with the use made and proposed to be made of such property by the Company. Any real property and facilities held under lease by the Company are held by them under valid, subsisting and enforceable leases with such exceptions as are not material and do not materially interfere with the use made and proposed to be made of such property and buildings by the Company.

(y) Intellectual Property Rights. To the knowledge of the Company, except as set forth in the Report of Foreign Private Issuer on Form 6-K furnished by the Company to the SEC on July 22, 2013, the Company owns or possesses adequate rights or licenses to use all trademarks, trade names, service marks, service mark registrations, service names, patents, patent rights, copyrights, original works, inventions, licenses, approvals, governmental authorizations, trade secrets and other intellectual property rights and all applications and registrations therefor ("Intellectual Property Rights") necessary to conduct its business as described in the SEC Documents. None of the Company's material Intellectual Property Rights have expired, terminated or been abandoned, or are expected to expire, terminate or be abandoned, within two (2) years from the date of this Agreement. The Company has no knowledge of any infringement by the Company of Intellectual Property Rights of others. No written claim or any action or proceeding has been made or brought, or to the knowledge of the Company, threatened, against the Company regarding its Intellectual Property Rights. Except as set forth in the Report of Foreign Private Issuer on Form 6-K furnished by the Company to the SEC on July 22, 2013, the Company is not aware of any facts or circumstances which would form a reasonable basis for any of the foregoing infringements or claims, actions or proceedings. The Company has taken reasonable security measures to protect the secrecy, confidentiality and value of all of its Intellectual Property Rights, except where failure to take such measures would not, either individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect.

(z) Environmental Laws. The Company (i) is in compliance with all Environmental Laws (as defined below), (ii) has received all permits, licenses or other approvals required of it under applicable Environmental Laws to conduct its business and (iii) is in compliance with all terms and conditions of any such permit, license or approval where, in each of the foregoing clauses (i), (ii) and (iii), the failure to so comply could be reasonably expected to have, individually or in the aggregate, a Material Adverse Effect. "Environmental Laws" means all Israeli, federal, state, local or foreign laws relating to pollution or protection of human health or the environment (including, without limitation, ambient air, surface water, groundwater, land surface or subsurface strata), including, without limitation, laws relating to emissions, discharges, releases or threatened releases of chemicals, pollutants, contaminants, or toxic or hazardous substances or wastes (collectively, "Hazardous Materials") into the environment, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials, as well as all authorizations, codes, decrees, demands or demand letters, injunctions, judgments, licenses, notices or notice letters, orders, permits, plans or regulations issued, entered, promulgated or approved thereunder.

(aa) Tax Status. The Company (i) has made or filed all material Israeli, federal, state and foreign income and all other tax returns, reports and declarations required by any jurisdiction to which it is subject, (ii) has paid all taxes and other governmental assessments and charges that are material in amount, shown or determined to be due on such returns, reports and declarations, except those being contested in good faith, and (iii) has set aside on its books provision reasonably adequate for the payment of all taxes for periods subsequent to the periods to which such returns, reports or declarations apply. The Company is not aware of any tax deficiency that has been or would reasonably be expected to be asserted against the Company, in each case that would reasonably be expected to have a Material Adverse Effect.

(bb) Internal Accounting and Disclosure Controls. The Company maintains internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) that is effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS, including that (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with IFRS and to maintain asset and liability accountability, (iii) access to assets or incurrence of liabilities is permitted only in accordance with management's general or specific authorization and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any difference. The Company maintains disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Exchange Act) that are effective in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, including, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive officer or officers and its principal financial officer or officers, as appropriate, to allow timely decisions regarding required disclosure. The Company has not received any notice or correspondence from any accountant or other Person relating to any potential material weakness or significant deficiency in any part of the internal controls over financial reporting of the Company that has not been cured or otherwise resolved prior to the date hereof.

(cc) Off Balance Sheet Arrangements. There is no transaction, arrangement, or other relationship between the Company and an unconsolidated or other off balance sheet entity that is required to be disclosed by the Company in its Exchange Act filings and is not so disclosed or that otherwise could be reasonably likely to have a Material Adverse Effect.

(dd) Investment Company Status. The Company is not, and upon consummation of the sale of the Offered Securities will not be, an "investment company," an affiliate of an "investment company," a company controlled by an "investment company" or an "affiliated person" of, or "promoter" or "principal underwriter" for, an "investment company" as such terms are defined in the Investment Company Act of 1940, as amended.

(ee) Acknowledgement Regarding Buyer's Trading Activity. It is understood and acknowledged by the Company that, following the public disclosure of the transactions contemplated by this Agreement in accordance with the terms hereof, the Buyer has not been asked by the Company to agree, nor has the Buyer agreed with the Company to desist from effecting any transactions in or with respect to (including, without limitation, purchasing or selling, long and/or short) any securities of the Company, or "derivative" securities based on securities issued by the Company or to hold any of the Offered Securities for any specified term. The Company further understands and acknowledges that following the public disclosure of the transactions contemplated by this Agreement pursuant to the Press Release (as defined below) and subject to applicable law the Buyer may engage in hedging and/or trading activities at various times during the period that the Offered Securities are outstanding and the Company acknowledges that such aforementioned hedging and/or trading activities do not constitute a breach of this Agreement or the Warrant.

(ff) Manipulation of Price. The Company has not taken and will not take, directly or indirectly, any action which constitutes, was designed to, or that would reasonably be expected to cause or result in, stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Offered Securities. The Company will take reasonable best efforts to cause its officers and directors not to take, directly or indirectly, any action which is designed to or which has constituted or which would be expected to cause or result in stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Offered Securities.

(gg) Transfer Taxes. There are no transfer taxes or other similar fees or charges under Israeli law, U.S. federal law or the laws of any state, or any political subdivision thereof, required to be paid in connection with the execution and delivery of this Agreement or the issuance or sale by the Company of the Offered Securities.

(hh) No Adjustment to Other Securities. The issuance and sale of the Offered Securities hereunder will not obligate the Company to issue ADSs, Warrants, Ordinary Shares or other securities to any other person (other than the Buyer) and will not result in the adjustment of the exercise, conversion, exchange or reset price of any outstanding securities.

(jj) Shell Company Status. The Company is not, and has never been, an issuer identified in, or subject to, Rule 144(i) under the Securities Act.

(kk) Illegal or Unauthorized Payments; Political Contributions. None of the Company or, to the Company's knowledge (after reasonable inquiry of its executive officers and directors), any of its officers, directors, employees, agents or other representatives or any other business entity or enterprise with which the Company is or has been affiliated or associated, has, directly or indirectly, made or authorized any payment, contribution or gift of money, property, or services, whether or not in contravention of applicable law (i) as a kickback or bribe to any Person or governmental authority, agency or representative or (ii) to any political organization, or the holder of or any aspirant to any elective or appointive public office except for personal political contributions not involving the direct or indirect use of funds of the Company.

(ll) Disclosure. The Company confirms that, except for (i) the existence of the transactions contemplated by this Agreement and the Warrant and (ii) the MNPI, neither it nor any other Person acting on its behalf has provided the Buyer or its agents or counsel with any information that constitutes or could reasonably be expected to constitute material, non-public information concerning the Company. The Company understands and confirms that the Buyer will rely on the foregoing representations in effecting transactions in securities of the Company. All disclosure provided to the Buyer regarding the Company, its business and the transactions contemplated hereby furnished by or on behalf of the Company is true and correct in all material respects and does not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading. No event or circumstance has occurred or information exists with respect to the Company or its business, properties, liabilities, results of operations, financial condition or prospects, which, under applicable law, rule or regulation, requires public disclosure at or before the date hereof or announcement by the Company but which has not been so publicly disclosed. The Company acknowledges and agrees that Buyer does not make and has not made any representations or warranties with respect to the transactions contemplated hereby other than those specifically set forth in Section 2.

4 **COVENANTS**.

(a) Reporting Status. For a period of four years from the Closing or, if earlier, until the date on which the Buyer shall have sold all of the Registrable Securities or the Registrable Securities are no longer outstanding (the "Reporting Period"), the Company shall timely file or furnish, as applicable, all reports required to be filed or furnished with the SEC pursuant to the Exchange Act, and the Company shall not terminate its status as an issuer required to file reports under the Exchange Act even if the Exchange Act or the rules and regulations thereunder would no longer require or otherwise permit such termination.

(b) Use of Proceeds. The Company shall use the proceeds from the sale of the Offered Securities hereunder solely for the continuation of its existing and planned research and development activities, including the clinical trials described in the SEC Documents, the acquisition of new drug candidates and related technologies or products, and other general working capital and research and development purposes. Without limiting the foregoing, none of such proceeds shall be used, directly or indirectly, (i) for the satisfaction of any debt of the Company (other than payment of trade payables incurred after the date hereof in the ordinary course of business of the Company and consistent with prior practices), (ii) for the redemption of any securities of the Company or (iii) with respect to any litigation involving the Company (including, without limitation, (A) the settlement thereof or (B) the payment of any costs or expenses related thereto).

(c) Fees. The Company shall reimburse the Buyer for all costs and expenses incurred by it or its affiliates in connection with the transactions contemplated by this Agreement (including, without limitation, all accounting and legal fees and disbursements in connection therewith, structuring, documentation and implementation of the transactions contemplated by this agreement and the Warrant and due diligence and regulatory filings in connection herewith and therewith), which amount may be withheld by the Buyer from its purchase price at the Closing, provided that the Company's obligation to so reimburse the Buyer for such costs and expenses shall be limited to $40,000, if the Closing does not occur, or $85,000 if the Closing occurs by January 9, 2013. The Company shall be responsible for the payment of any placement agent's fees, financial advisory fees, or broker's commissions (other than for Persons engaged by the Buyer) relating to or arising out of the transactions contemplated hereby, including without limitation any fees payable to Stifel and/or Roth in connection therewith. The Company shall pay, and hold the Buyer harmless against, any liability, loss or expense (including, without limitation, reasonable attorneys' fees and out-of-pocket expenses) arising in connection with any claim relating to any such payment. Except as otherwise set forth herein, each party to this Agreement shall bear its own expenses in connection with the sale of the Offered Securities to the Buyer.

(d) Disclosure of Transactions and Other Material Information. The Company shall on or before 9:30 a.m., New York time, on the first (1st) Business Day immediately following the date of this Agreement: (i) issue a press release (the "Press Release") reasonably acceptable to the Buyer disclosing all the material terms of the transactions contemplated by this Agreement, including the name of the Buyer, and (ii) furnish a Report of Foreign Private Issuer on Form 6- K, complying as to form and substance with the requirements of the Exchange Act, that includes the Press Release as an exhibit thereto (including such exhibit, the "6-K Filing"). All MNPI shall be disclosed by the Company, on or prior to the seventy-fifth (75^{th}) calendar day following the Closing (the "Disclosure Deadline"), in a manner sufficient to ensure that, effective upon the making of such disclosure, the MNPI shall not constitute "material non-public information" under applicable U.S. securities laws (and SEC staff and judicial interpretations thereof); provided, however, that such requirement shall not apply if, prior to the Disclosure Deadline, the Company delivers to the Buyer a certificate (the "MNPI Certificate"), duly executed by the Chief Executive Officer of the Buyer, stating that the MNPI no longer constitutes "material non-public information" under applicable U.S. securities laws (and SEC staff and judicial interpretations thereof). In the event that the Company fails to disclose such MNPI or deliver an MNPI Certificate to the Buyer on or prior to the Disclosure Deadline, the Buyer shall be permitted to publicly disclose the MNPI in a manner sufficient to ensure that, effective upon the making of such disclosure, such MNPI shall not constitute "material non-public information" under applicable U.S. securities laws (and SEC staff and judicial interpretations thereof). The Company shall use its reasonable best efforts to deliver an MNPI Certificate to the Buyer promptly, and in any event no later than two (2) Business Days, following the date on which the Company first determines in good faith that the MNPI no longer constitutes "material non-public information" under applicable U.S. securities laws (and SEC staff and judicial interpretations thereof). The Company shall not, and the Company shall cause each of its officers, directors, employees and agents, not to, provide the Buyer with any material, non-public information regarding the Company from and after the Closing without the express prior written consent of the Buyer (which may be granted or withheld in the Buyer's sole discretion). Subject to the foregoing, neither the Company nor the Buyer shall issue any press releases or any other public statements with respect to the transactions contemplated hereby; provided, however, the Company shall be entitled, without the prior approval of the Buyer, to issue the Press Release and any other press release or make other public disclosure with respect to such transactions (i) in substantial conformity with the 6-K Filing and (ii) as is required by applicable law and regulations (provided that in the case of clause (i) the Buyer shall be consulted by the Company in connection with any such press release or other public disclosure prior to its release).

(e) Reservation of Shares. So long as any of the Warrant remains outstanding, the Company shall take all action necessary to at all times have authorized, and reserved for the purpose of issuance, no less than the maximum number of Ordinary Shares to be represented by the Warrant ADSs issuable upon exercise of the Warrant.

(f) Price Protection. From the date hereof through the date on which the Company has sold to bona fide third parties (which shall include sales to officers, directors and shareholders of the Company that are approved by the board of directors, including a majority of the disinterested directors) from and after the date of this Agreement Additional Securities (as defined below) resulting in aggregate gross proceeds to the Company of $28,000,000, if the Company issues any Additional Securities at a price per such Additional Security lower than the purchase price per Unit hereunder (i.e., $9.50) (such lower price, the "Subsequent Offering Price"), upon each such issuance the Company shall promptly cause to be issued and delivered to the Buyer such additional ADSs ("Ratchet ADSs") equal to the excess of (A) the quotient of 6,000,010 divided by the Subsequent Offering Price (calculated, in the event of any security convertible into or exercisable for ADSs or Ordinary Shares, based on the conversion or exercise price per share and, in the case of an offering of Ordinary Shares or any security convertible into or exercisable for Ordinary Shares, multiplied by 10 (or, in the case one ADS represents some other number of Ordinary Shares, multiplied by such other number)) minus (B) the sum of 631,580 and the number of Ratchet ADSs, if any, issued pursuant to this Agreement prior to issuance of such additional Ratchet ADSs. As used herein (and except as provided in the next succeeding sentence), "Additional Securities" means Ordinary Shares, any other capital stock of the Company, ADSs, or any evidences of indebtedness or other securities representing or directly or indirectly convertible into or exchangeable for capital stock of the Company; provided, however, that if Ordinary Shares and/or ADSs are offered as units together with any other rights (whether warrants, other securities representing or directly or indirectly convertible into or exchangeable for share capital of the Company, or other rights), the "Subsequent Offering Price" shall be the price paid for each "unit" in such offering, which unit shall be comprised of (i) one Ordinary Share and or ADS, as the case may be, plus (ii) a number of such other rights as is equal to (x) the aggregate number of such other rights offered in such transaction divided by (y) the aggregate number of Ordinary Share or ADSs, as the case may be, offered in such transaction. "Additional Securities" shall not include: (i) the Offered Securities; (ii) stock options, Ordinary Shares and other stock awards issued to employees or directors of, or consultants or advisors to, the Company pursuant to its 2010 Stock Option Plan, as in effect on the date hereof and described in the SEC Documents or pursuant to any other stock option plan, agreement or arrangement approved by the Company's board of directors; (iii) Ordinary Shares actually issued upon the exercise of options or warrants outstanding on the date hereof, in each case provided such issuance is pursuant to the terms of such option or warrant; and (iv) Ordinary Shares issued by the Company as consideration for the acquisition of all of the equity securities and voting rights, or all or substantially all of the assets, of any Person or other reorganization or joint venture, in each case in a transaction approved by the board of directors of the Company and, if required under applicable law or stock exchange regulations, the Company's stockholders; (v) Ordinary Shares or ADSs issued by reason of a dividend, stock split, split-up or other distribution on ordinary shares; or (vi) Ordinary Shares, ADSs, options or other securities convertible into, or exercisable for, Ordinary Shares or ADSs issued (a) in connection with the acquisition of, or licensing arrangements for, pharmaceutical products, (b) to suppliers or third party service providers in connection with the provision of goods or services or (c) in connection with sponsored research, collaboration, technology license, development, OEM, marketing or other similar agreements or strategic partnerships, in each case pursuant to transactions approved by the Board of Directors of the Company and not in connection with a capital raising transaction (any securities issued as described in clauses (i) through (vi), collectively, "Excluded Securities"). For the avoidance of doubt, Excluded Securities (and the proceeds from the issuance thereof) shall not be included in the calculation of the aggregate gross proceeds to the Company from sales of Additional Securities for purposes of this Section 4(f). Notwithstanding anything to the contrary herein, in the event of an issuance of Ratchet ADSs to the Buyer, such issuance and the price for each Ratchet ADS shall be subject to the receipt of all approvals required under the applicable law, including but not limited to the Israeli Securities Law and the regulations promulgated thereunder, and subject to the TASE rules and guidelines, as may be amended from time to time; provided that the Company shall use its reasonable best efforts to obtain all necessary approvals as promptly as possible following the closing of a sale of Additional Securities resulting in an obligation of the Company to issue Ratchet ADSs hereunder and, provided further, that in no event shall the Company be excused from its obligations hereunder to issue Ratchet ADSs if required pursuant to this Section 4(f); except as otherwise provided by applicable law, including TASE rules and guidelines as they may be amended from time to time.

5 **LEGEND**.

(a) Legend. Until such time as determined in accordance with paragraph (b) below, any certificates evidencing the Registrable Securities will bear a restrictive legend in substantially the following form (and a stop-transfer order may be placed against transfer of such Registrable Securities):

THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE BEEN ISSUED AND SOLD TO AN INVESTOR WHO IS NOT A U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT OF 1933, AS AMENDED ("THE SECURITIES ACT")) WITHOUT REGISTRATION UNDER THE SECURITIES ACT IN RELIANCE UPON REGULATION S PROMULGATED UNDER THE SECURITIES ACT. THESE SECURITIES[, AND THE SECURITIES INTO WHICH THEY ARE EXERCISABLE,] MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (2) PURSUANT TO AN AVAILABLE EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT, AS CONFIRMED BY AN OPINION OF UNITED STATES COUNSEL THAT IS SATISFACTORY TO THE COMPANY, OR (3) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE STATE SECURITIES LAWS AND THE SECURITIES LAWS OF OTHER JURISDICTIONS. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES.

(b) Removal of Legends. The Company shall cause the restrictive legend set forth in Section 5(a) to be removed from the Registrable Securities and any ADSs representing the Registrable Securities if those securities are (i) resold outside the United States in accordance with Regulation S, (ii) resold in accordance with Rule 144 or another available exemption under the Securities Act following which such securities will not constitute restricted securities or control securities in the hands of the purchaser or transferee thereof, as confirmed by an opinion of United States counsel that is satisfactory to the Company, or (iii) resold in reliance on an effective registration statement under the Securities Act. In connection with a resale of Registrable Securities or ADSs representing Registrable Securities in reliance on an effective registration statement under the Securities Act, the Company will confirm, if applicable, that the registration statement was effective and could be relied upon for resale of securities as of the applicable date of sale and that the specified seller was listed as a selling shareholder in the prospectus included in such registration statement. If at any time a legend is not required pursuant to this paragraph (b), upon request of the Buyer the Company shall cause The Bank of New York Mellon, as depositary (together with its successors and assigns, the "Depositary"), to promptly, but no later than three (3) Business Days (including Fridays) following the delivery by the Buyer to the Depository (with notice to the Company) of restricted ADSs or Warrant ADSs (together with such customary opinions and documents required by the Depositary, and a proper instruction or instrument of transfer duly executed and bearing a Medallion signature guarantee), at the request of the Buyer, either (A) issue and deliver (or cause to be delivered) to the Buyer a certificate representing the ADSs or Warrant ADSs so delivered to the Depositary by the Buyer, free from all restrictive and other legends, or (B) credit the aggregate number of ADSs or Warrant ADSs represented by the restricted certificates so delivered to the Buyer's or its designee's balance account with the Depository Trust Company ("DTC") through its Deposit/Withdrawal at Custodian system (the date by which such credit is so required to be made to the balance account of Buyer or Buyer's nominee with DTC or such certificate is required to be delivered to the Buyer pursuant to the foregoing is referred to herein as the "Required Delivery Date").

(c) Failure to Timely Deliver; Buy-In. If the Depositary fails to (i) issue and deliver (or cause to be delivered) to the Buyer by the Required Delivery Date a certificate representing ADSs or Warrant ADSs so delivered to the Depositary by the Buyer that is free from all restrictive and other legends or (ii) credit the balance account of the Buyer's or the Buyer's nominee with DTC for such number of ADSs or Warrant ADSs so delivered to the Company (other than, in the case of this clause (ii), due to the failure of the Buyer's broker to initial the FAST process), and on or after the Required Delivery Date the Buyer (or any other Person in respect, or on behalf, of the Buyer) purchases (in an open market transaction or otherwise) ADSs or Ordinary Shares to deliver in satisfaction of a sale by the Buyer to a non-affiliate of all or any portion of the number of ADSs or Ordinary Shares that the Buyer so anticipated receiving from the Company without any restrictive legend, then, in addition to all other remedies available to the Buyer, the Company shall, within three (3) Business Days (including Fridays) after the Buyer's request, promptly honor its obligation to cause the Depositary to so deliver to the Buyer a certificate or certificates or credit the Buyer's DTC account representing such number of ADSs or Ordinary Shares representing ADSs that would have been so delivered if the Company timely complied with its obligations hereunder (as the case may be) and pay cash to the Buyer in an amount equal to the excess (if any) of the amount equal to the Buyer's total purchase price (including brokerage commissions and other out-of-pocket expenses, if any) for the ADSs or Ordinary Shares so purchased over the product of (1) such number of ADSs or Ordinary Shares and (2) the price at which the sell order giving rise to Buyer's purchase obligation was executed.

6 **CONDITIONS TO THE COMPANY'S OBLIGATION TO SELL**. The obligation of the Company hereunder to issue and sell the Units to the Buyer at the Closing is subject to the satisfaction, at or before the Closing Date, of each of the following conditions, provided that these conditions are for the Company's sole benefit and may be waived by the Company at any time in its sole discretion by providing the Buyer with prior written notice thereof:

(a) the Buyer shall have delivered to the Company those documents and other items required to be delivered by it pursuant to Section 1(d)(i); and

(b) the representations and warranties of the Buyer shall be true and correct in all material respects as of the date when made and as of the Closing Date as though originally made at that time (except for representations and warranties that speak as of a specific date, which shall be true and correct in all material respects as of such date, and that any representation and warranty qualified by materiality or Material Adverse Effect shall be true and correct in all respects), and the Buyer shall have performed, satisfied and complied in all material respects with the covenants, agreements and conditions required by this Agreement to be performed, satisfied or complied with by the Buyer at or prior to the Closing Date.

7 **CONDITIONS TO THE BUYER'S OBLIGATION TO PURCHASE**. The obligation of the Buyer hereunder to purchase the Units at the Closing is subject to the satisfaction, at or before the Closing Date, of each of the following conditions, provided that these conditions are for the Buyer's sole benefit and may be waived by the Buyer at any time in its sole discretion by providing the Company with prior written notice thereof:

(a) the Company shall have delivered to the Buyer those documents and other items required to be delivered by it pursuant to Section 1(d)(ii);

(b) the representations and warranties of the Company shall be true and correct in all material respects as of the date when made and as of the Closing Date as though originally made at that time (except for representations and warranties that speak as of a specific date, which shall be true and correct in all material respects as of such date, and that any representation and warranty qualified by materiality or Material Adverse Effect shall be true and correct in all respects) and the Company shall have performed, satisfied and complied in all material respects with the covenants, agreements and conditions required by this Agreement to be performed, satisfied or complied with by the Company at or prior to the Closing Date;

(c) the Buyer shall have received a certificate, executed by the Chief Executive Officer of the Company and dated as of the Closing Date, certifying as to the matters set forth in Section 7(b); and

(d) the Company shall have delivered to the Buyer evidence, in form and substance reasonably satisfactory to the Buyer, that each of the Required Approvals was received as of the Closing;

(e) the ADSs shall be duly listed, and admitted and authorized for trading, on the NASDAQ Capital Market (subject to official notice of issuance, if required);

(f) the Ordinary Shares represented by the ADSs and underlying the Warrant ADSs shall have been approved for listing on the TASE (subject to official notice of issuance); and

(g) none of the listing of the ADSs the NASDAQ Capital Market or the listing of the Ordinary Shares on the Tel Aviv Stock Exchange shall have been suspended as of the Closing Date, nor shall suspension thereof have been threatened as of the Closing Date.

8 **REGISTRATION OF THE REGISTRABLE SECURITIES**.

(a) Registration Procedures and Expenses.

(i) The Company shall:

(A) as soon as practicable, but in no event later than thirty (30) days following the Closing Date (the "Filing Deadline"), prepare and file with the Commission a registration statement on Form F-3 (or, if the Company is not then eligible to register the Registrable Securities for resale on Form F-3, on another appropriate form in accordance with the Securities Act and the Exchange Act), to enable the resale of the Registrable Securities by the Buyer in an offering to be made on a continuous basis pursuant to Rule 415 under the Securities Act (such registration statement being referred to herein as the "Initial Registration Statement" and each registration statement required to be filed under this Section 8 being referred to herein as a "Registration Statement"); provided, however, that the Buyer shall not be named as an "underwriter" in the Registration Statement without the Buyer's prior written consent;

(B) use its reasonable best efforts, subject to receipt of necessary information from the Buyer, to cause the SEC to declare the Initial Registration Statement effective as promptly as practicable, but in any event no later than the earlier of (I) the fifth (5^{th}) day after the Company receives notice from the SEC that such Registration Statement will not become subject to review, or (II) the ninetieth (90^{th}) day after the filing thereof or if later the one hundred and twentieth (120^{th}) day after the Closing Date (as applicable, the "Effective Deadline");

(C) use its reasonable best efforts to prepare and file with the SEC such amendments and supplements to a Registration Statement in compliance with applicable laws, any prospectus used in connection therewith (each, a "Prospectus") and any document incorporated by reference therein as may be necessary to keep such Registration Statement current, effective and free from any material misstatement or omission to state a material fact until the earliest of (I) twelve months after the effective date of the Registration Statement and (II) such time as all Offered ADSs and all Warrant ADSs issuable pursuant to the Warrant and, in each case, covered by the Registration Statement, may be sold without volume limitations pursuant to Rule 144 (the "Effectiveness Period");

(D) furnish to the Buyer with respect to the Registrable Securities registered under the Registration Statement (and to each underwriter, if any, of such Registrable Securities) such number of copies of the Registration Statement, Prospectuses and Preliminary Prospectuses in conformity with the requirements of the Securities Act and such other documents as the Buyer (or underwriter, as applicable) may reasonably request in order to facilitate the public sale or other disposition of all or any of the Registrable Securities;

(E) file documents required of the Company for normal blue sky clearance in states specified in writing by the Buyer and use its commercially reasonable efforts to maintain such blue sky qualifications during the Effectiveness Period; provided, however, that the Company shall not be required to qualify to do business or consent to service of process in any jurisdiction in which it is not now so qualified or has not so consented or subject the Company to any material tax (excluding, for the avoidance of doubt, any filing fees required in connection with such filing) in any such jurisdiction where it is not then so subject;

(F) immediately notify the Buyer, at any time prior to the end of the Effectiveness Period, upon discovery that, or upon the happening of any event as a result of which, the Registration Statement includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing, and promptly prepare, file with the SEC and furnish to such holder an amendment of such Registration Statement as may be necessary so that such Registration Statement shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing;

(G) advise the Buyer, promptly after it shall receive notice or obtain knowledge of the issuance of any stop order by the SEC delaying or suspending the effectiveness of a Registration Statement or of the initiation or threat of any proceeding for that purpose; and, subject to Section 8(a)(iii), promptly use its reasonable best efforts to prevent the issuance of any stop order or to obtain its withdrawal at the earliest possible moment if such stop order should be issued;

(H) bear all expenses in connection with the procedures in clauses (A) through (G) of this Section 8(a)(i), the procedures in Section 8(a)(iv) and the registration of the Registrable Securities pursuant to the Registration Statement, including any expenses incurred with respect to the duties of the Depositary pursuant to this Agreement (other than underwriting discounts or commissions, brokers' fees and similar selling expenses and any other fees or expenses incurred by the Buyer, including attorneys' fees);

(I) promptly following the date on which any Registration Statement is declared effective by the SEC, file with the SEC in accordance with Rule 424 under the Securities Act, if required thereunder, the final prospectus to be used in connection with sales pursuant to such Registration Statement; and

(J) at least two (2) Business Days prior to the filing of each Registration Statement, provide a "Plan of Distribution" and "Selling Stockholders" section of such Registration Statement to the Buyer for the Buyer's review and comment which, at a minimum, states that the selling stockholders may transfer the shares of common stock in various circumstances, including circumstances in which the transferees, pledgees or other successors in interest may be the selling beneficial owners for purposes of the Prospectus, and make all changes and modifications thereto reasonably requested by the Buyer.

(ii) Notwithstanding anything to the contrary herein, from the date hereof until the effective date of one or more Registration Statements covering all of the Registrable Securities, the Company shall not, without the prior written consent of the Buyer, prepare and file with the SEC a registration statement (or prospectus filed pursuant to an effective "shelf" registration statement) relating to an offering for its own account or the account of others under the Securities Act of any of its equity securities; provided however that, subject to the restrictions contained herein, the Registration Statement covering the Registrable Securities may be a "universal" shelf registration statement covering additional securities of the Company and the Registration Statement may also register for resale by the holders thereof Ordinary Shares representing up to 263,158 ADSs and up to 105,263 Warrant ADSs in connection with the sale of up to 263,158 additional Units to one or more additional purchasers (the "Additional Investors") within forty-five days of the date hereof.

(iii) Notwithstanding anything to the contrary herein, if the SEC takes the position that the offering of some or all of the Registrable Securities in the Initial Registration Statement (and/or any other securities registered therein) is not eligible to be made on a delayed or continuous basis under the provisions of Rule 415 as a result of a characterization by the SEC of the transaction described by the Initial Registration Statement as a primary offering by the Company, the Company shall use its reasonable best efforts to persuade the SEC that the offering contemplated by the Initial Registration Statement is a valid secondary offering and not an offering "by or on behalf of the issuer" as defined in Rule 415. In the event that, despite the Company's reasonable best efforts and compliance with the terms of this Section 8(a)(iii), the SEC refuses to alter its position, the Company shall remove from the Initial Registration Statement such portion of the Registrable Securities and/or other securities registered therein (the "Cut Back ADSs") as the SEC may require to assure the Company's compliance with the requirements of Rule 415; provided, however, that the Company shall have no liability to the Buyer pursuant to Section 8(c) or otherwise as a result of the failure to register any Registrable Securities as a result of the SEC's application of Rule 415 despite the Company's reasonable best efforts to persuade the SEC that the offering contemplated by the Registration Statement is a valid secondary offering and not an offering "by or on behalf of the issuer" as defined in Rule 415. For the purpose of determining the Cut Back ADSs, first all securities being registered on behalf of Persons other than the Buyer (if any), including shares registered on behalf of any Additional Investors, shall be excluded until all securities being registered on behalf of Persons other than the Buyer have been excluded), second (if necessary) the Warrant ADSs offered on behalf of the Buyer shall be excluded until all such Warrant ADSs have been excluded and third (if necessary) the Offered ADSs offered on behalf of the Buyer shall be excluded until all such Offered ADSs have been excluded. As soon as practicable following such intervening period of time as shall be required by the SEC or SEC guidance prior to the filing thereof, the Company shall file one or more additional registration statements covering the resale of as many Cut Back ADSs allowed by the SEC or SEC guidance to be so registered while maintaining the Company's compliance with Rule 415 (each, an "Additional Registration Statement"). The Company shall use its commercially reasonable efforts to file each Additional Registration Statement on or prior to the twentieth (20^{th}) day after such day that represents the first opportunity that the SEC allows the Additional Registration Statement to be filed without the offering of the shares registered thereunder being deemed a primary offering (the "Additional Registration Statement Filing Eligibility Day") and cause each Additional Registration Statement to be declared effective no later than, as applicable (a) five (5) days after the Company receives notice from the SEC that the Additional Registration Statement will not become subject to review or (b) if the Additional Registration Statement becomes subject to review by the SEC, ninety (90) days after the filing thereof. With regard to any such Additional Registration Statement, all of the provisions of this Section 8(a)(iii) shall again be applicable to the Cut Back Shares. The Company shall give the Buyer prompt notice of the amount of Shares excluded from each Additional Registration Statement. Each Registration Statement shall be on Form F-3 (except if the Company is not then eligible to register for resale the Registrable Securities on Form F-3, in which case such registration shall be on another appropriate form in accordance with the Securities Act and the Exchange Act).

(iv) Within two (2) Business Days of the effective date of any Registration Statement, the Company shall give notice to the Buyer of such effectiveness and cause its counsel to issue an appropriate opinion or opinions to the Depositary, substantially to the effect that the shares are subject to an effective registration statement and can be reissued free of restrictive legend upon notice of a sale by Buyer and confirmation by Buyer that it has complied with the prospectus delivery requirements, provided that the Company has not advised the Depositary orally or in writing that the opinion has been withdrawn.

(b) Transfer of Registrable Securities After Registration. The Buyer agrees that it will not effect any disposition of the Registrable Securities or its right to purchase the Registrable Securities that would constitute a sale within the meaning of the Securities Act or pursuant to any applicable state securities laws, except as contemplated in the Registration Statement referred to in Section 8(a) or as otherwise permitted by law, and that it will promptly notify the Company of any changes in the information set forth in the Registration Statement regarding the Buyer or its plan of distribution.

(c) Indemnification. For purposes of this Section 8(c), the term "Selling Stockholder" means the Buyer and any affiliate of the Buyer; the term "Registration Statement" shall include each Registration Statement and any Prospectus, in the form first filed with the SEC pursuant to Rule 424(b) under the Securities Act or filed as part of such Registration Statement at the time of effectiveness if no Rule 424(b) filing is required, supplement or amendment included in or relating to each such Registration Statement; and (for purposes of clause (iv) below) the term "untrue statement" shall include any untrue statement or alleged untrue statement of a material fact required, or any omission or alleged omission to state in the Registration Statement a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(i) The Company agrees to indemnify and hold harmless each Selling Stockholder and its officers, directors, partners, members, agents and employees from and against any losses, claims, damages or liabilities to which such Selling Stockholder, officer, director, partner, member, agent or employee may become subject (under the Securities Act or otherwise) insofar as such losses, claims, damages or liabilities (or actions or proceedings in respect thereof) arise out of, or are based upon (A) any breach of the representations or warranties of the Company contained herein or failure to comply with the covenants and agreements of the Company contained herein, (B) any untrue or alleged untrue statement of a material fact contained in the Registration Statement as amended at the time of effectiveness or any omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein not misleading, (C) any failure by the Company to fulfill any undertaking included in the Registration Statement as amended at the time of effectiveness, (D) any claim by Stifel, Roth or any other placement agent, broker, finder, investment banker or other agent for any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of the Company, or (E) any cause of action, suit, proceeding or claim brought or made against any such indemnitee by a third party (including for these purposes a derivative action brought on behalf of the Company) or which otherwise involves any such indemnitee that arises out of or results from (I) the execution, delivery or performance of any of this Agreement and/or the Warrant or (II) any disclosure properly made by the Buyer pursuant to Section 4(d), and the Company will reimburse such Selling Stockholder for any reasonable legal or other expenses reasonably incurred in investigating, defending or preparing to defend any such action, proceeding or claim, provided, however, that the Company shall not be liable in any such case to the extent that such loss, claim, damage or liability arises out of, or is based upon, an untrue or alleged untrue statement made in such Registration Statement or any omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein not misleading in reliance upon and in conformity with written information furnished to the Company by or on behalf of such Selling Stockholder specifically for use in preparation of the Registration Statement, or the failure of such Selling Stockholder to comply with its covenants and agreements contained in Section 8(b) hereof respecting sale of the Registrable Securities or any statement or omission in any Prospectus that is corrected in any subsequent Prospectus that was delivered to the Selling Stockholder prior to the pertinent sale or sales by the Selling Stockholder. The Company shall reimburse each Selling Stockholder for the amounts provided for herein on demand as such expenses are incurred as reasonably documented by the Selling Stockholder.

(ii) The Buyer agrees to indemnify and hold harmless the Company and its affiliates and their respective officers, directors, partners, members, agents and employees from and against any losses, claims, damages or liabilities to which the Company, affiliate, officer, director, partner, member, agent or employee may become subject (under the Securities Act or otherwise), insofar as such losses, claims, damages or liabilities (or actions or proceedings in respect thereof) arise out of, or are based upon, (A) any breach of the representations or warranties of the Buyer contained herein or failure to comply with the covenants and agreements of the Buyer contained herein, (B) any untrue or alleged untrue statement of a material fact contained in the Registration Statement or any omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein not misleading if such untrue statement or omission was made in reliance upon and in conformity with written information furnished by or on behalf of the Buyer specifically for use in preparation of the Registration Statement or (C) the use by the Buyer of an outdated or defective Prospectus after the Company has notified the Buyer in writing that the Prospectus is outdated or defective and prior to the receipt by the Buyer of the amended or supplemented Prospectus, and the Buyer will reimburse the Company (or such officer, director or controlling person), as the case may be, for any legal or other expenses reasonably incurred in investigating, defending or preparing to defend any such action, proceeding or claim; provided that Buyer's obligation to indemnify the Company shall be limited to the net amount received by the Buyer from the sale of the Registrable Securities.

(iii) Promptly after receipt by any indemnified person of a notice of a claim or the beginning of any action in respect of which indemnity is to be sought against an indemnifying person pursuant to this Section 8(c), such indemnified person shall notify the indemnifying person in writing of such claim or of the commencement of such action, but the failure to so notify the indemnifying person will not relieve it from any liability which it may have to any indemnified person under this Section 8(c) or from any liability otherwise than under this Section 8(c) (except to the extent that such omission materially and adversely affects the indemnifying person's ability to defend such action). Subject to the provisions hereinafter stated, in case any such action shall be brought against an indemnified person, the indemnifying person shall be entitled to participate therein, and, to the extent that it shall elect by written notice delivered to the indemnified person promptly after receiving the aforesaid notice from such indemnified person, shall be entitled to assume the defense thereof, with counsel reasonably satisfactory to such indemnified person. After notice from the indemnifying person to such indemnified person of its election to assume the defense thereof, such indemnifying person shall not be liable to such indemnified person for any legal expenses subsequently incurred by such indemnified person in connection with the defense thereof; provided, however, that if there exists or shall exist a conflict of interest that would make it inappropriate, in the opinion of counsel to the indemnified person, for the same counsel to represent both the indemnified person and such indemnifying person or any affiliate or associate thereof, the indemnified person shall be entitled to retain its own counsel at the expense of such indemnifying person; provided further, that no indemnifying person shall be responsible for the fees and expenses of more than one separate counsel (together with appropriate local counsel) for all indemnified parties. In no event shall any indemnifying person be liable in respect of any amounts paid in settlement of any action unless the indemnifying person shall have approved the terms of such settlement; provided that such consent shall not be unreasonably withheld. No indemnifying person shall, without the prior written consent of the indemnified person, effect any settlement of any pending or threatened proceeding in respect of which any indemnified person is a party and indemnification could have been sought hereunder by such indemnified person, unless such settlement includes an unconditional release of such indemnified person from all liability on claims that are the subject matter of such proceeding.

(iv) If the indemnification provided for in this Section 8(c) is unavailable to or insufficient to hold harmless an indemnified person under clause (i) or (ii) above in respect of any losses, claims, damages or liabilities (or actions or proceedings in respect thereof) referred to therein, then each indemnifying person shall contribute to the amount paid or payable by such indemnified person as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect the relative fault of the Company on the one hand and the Buyer, as well as any other Selling Stockholders under such registration statement on the other in connection with the statements or omissions or other matters which resulted in such losses, claims, damages or liabilities (or actions in respect thereof), as well as any other relevant equitable considerations. The relative fault shall be determined by reference to, among other things, in the case of an untrue or alleged untrue statement, whether the untrue statement relates to information supplied by the Company on the one hand or the Buyer or other Selling Stockholder on the other and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such untrue statement. The Company and the Buyer agree that it would not be just and equitable if contribution pursuant to this clause (iv) were determined by pro rata allocation (even if the Buyer and other Selling Stockholders were treated as one entity for such purpose) or by any other method of allocation which does not take into account the equitable considerations referred to above in this clause (iv). The amount paid or payable by an indemnified person as a result of the losses, claims, damages or liabilities (or actions in respect thereof) referred to above in this clause (iv) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified person in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this clause (iv), the Buyer shall not be required to contribute any amount in excess of the amount by which the net amount received by the Buyer from the sale of the Registrable Securities to which such loss relates exceeds the amount of any damages which the Buyer has otherwise been required to pay by reason of such untrue or alleged untrue statement. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

(v) The parties to this Agreement hereby acknowledge that they are sophisticated business persons who were represented by counsel during the negotiations regarding the provisions hereof including, without limitation, the provisions of this Section 8(c), and are fully informed regarding said provisions. They further acknowledge that the provisions of this Section 8(c) fairly allocate the risks in light of the ability of the parties to investigate the Company and its business in order to assure that adequate disclosure is made in the Registration Statement as required by the Securities Act and the Exchange Act. The parties are advised that U.S. federal or state public policy as interpreted by the courts in certain jurisdictions may be contrary to certain of the provisions of this Section 8(c), and the parties hereto hereby expressly waive and relinquish any right or ability to assert such public policy as a defense to a claim under this Section 8(c) and further agree not to attempt to assert any such defense.

(d) Termination of Conditions and Obligations. The restrictions imposed by Section 5(a) or Section 8(b) upon the transferability of the Registrable Securities shall cease and terminate as to any particular number of the Registrable Securities at such time as such Registrable Securities shall have been effectively registered under the Securities Act and sold or otherwise disposed of in accordance with the intended method of disposition set forth in the Registration Statement covering such shares, or at such time as an opinion of counsel reasonably satisfactory to the Company shall have been rendered to the effect that such Registrable Securities can be sold, assigned or transferred pursuant to Rule 144 under the Securities Act (or a successor rule thereto) or another exemption from the registration requirements of the Securities Act without volume limitations.

(e) Liquidated Damages. The Company and the Buyer agree that Buyer will suffer damages if the Company fails to fulfill its obligations pursuant to Section 8(a) hereof and that it would not be possible to ascertain the extent of such damages with precision. Accordingly, subject to Section 8(a) (iii) hereof, the Company hereby agrees to pay liquidated damages ("Liquidated Damages") to Buyer under the following circumstances: (i) if the Initial Registration Statement covering all of the Registrable Securities required or permitted to be covered by it is not filed by the Company on or prior to the Filing Deadline or any Additional Registration Statement covering all of the Registrable Securities required or permitted to be covered by it is not filed on or prior to the twentieth (20^{th}) day after the Additional Registration Statement Filing Eligibility Day (either such event, a "Filing Default"); (ii) if the Initial Registration Statement covering all of the Registrable Securities required or permitted to be covered by it is not declared effective by the SEC on or prior to the Effectiveness Deadline or any Additional Registration Statement covering all of the Registrable Securities required or permitted to be covered by it is not declared effective on or prior to the fifth (5^{th}) day after the Company receives notice from the SEC that such Additional Registration Statement will not become subject to review (or, if such Additional Registration Statement becomes subject to review by the SEC, on or prior to the ninetieth (90^{th}) day after the filing thereof) (either such event, an "Effectiveness Default"); or (iii) subject to the Blackout Period (described below), if, after the effective date of any Registration Statement, such Registration Statement ceases to be effective and available to the Buyer for the resale of the Registrable Securities required or permitted to be covered by it during the Effectiveness Period (a "Maintenance Default" and, together with a Filing Default and an Effectiveness Default, a "Registration Default"). In the event of a Registration Default, the Company shall pay to Buyer as Liquidated Damages, for each thirty (30) day period of a Registration Default, an amount in cash equal to 0.75% of the aggregate purchase price paid by Buyer pursuant to this Agreement (increasing to 1.25% for each thirty (30) day period (or portion thereof) commencing on or after the six month anniversary of the day on which a continuing Registration Default first occurred); provided that in no event shall the aggregate amount of cash to be paid as Liquidated Damages pursuant to this Section 8(e) exceed 10% of the aggregate purchase price paid by Buyer. The Company shall pay the Liquidated Damages as follows: (i) in connection with a Filing Default, on the thirty first (31^{st}) day after the Closing Date or the twenty first (21^{st}) day after the applicable Additional Registration Statement Filing Eligibility Day, as applicable, and, in each case, each thirtieth (30^{th}) day thereafter until the Registration Statement is filed with the SEC; (ii) in connection with an Effectiveness Default relating to the Initial Registration Statement, on the earlier of (A) the sixth (6^{th}) day after the Company receives notice from the SEC that such Registration Statement will not become subject to review or (B) the ninety first (91^{st}) day after the filing thereof or if later the one hundred and twenty first (121^{st}) day after the Closing Date, and each thirtieth (30^{th}) day thereafter until the Initial Registration Statement is declared effective by the SEC; (iii) if such Effectiveness Default relates to an Additional Registration Statement, on the sixth (6^{th}) day after the Company receives notice from the SEC that such Additional Registration Statement will not become subject to review (or, if such Additional Registration Statement becomes subject to review by the SEC, the ninety first (91^{st}) day after the filing date thereof) and each thirtieth (30^{th}) day thereafter until the Additional Registration Statement is declared effective by the SEC; and (iv) in connection with a Maintenance Default, on the first date of such Maintenance Default and each thirtieth (30^{th}) day thereafter until such Maintenance Default is cured. The Liquidated Damages payable herein shall apply on a pro rata basis for any portion of a thirty (30) day period of a Registration Default. In the event that the Company fails to make a Liquidated Damages payment in a timely manner, the past due amount of such Liquidated Damages shall bear interest at the rate of 2% per month (prorated for partial months) until paid in full. Notwithstanding the foregoing, the Company shall not be liable to the Buyer pursuant to this Section 8(e) as a result of the failure to register any Registrable Securities as a result of the Buyer's refusal to be named as an "underwriter" in any Registration Statement.

(f) Suspensions of Registration Statement. Notwithstanding the foregoing, if at any time or from time to time after the date of effectiveness of a Registration Statement, the Company's Board of Directors determines in good faith that the maintenance by the Company and use by the Buyer of an effective Registration Statement at such time would require the disclosure of material nonpublic information the disclosure of which at the time would cause material harm to the Company and which the failure to disclose while maintaining a Registration Statement in effect would reasonably be expected to constitute a material violation of law, the Company shall deliver a certificate in writing to the Buyer, duly executed by the Chief Executive Officer of the Company (the "Suspension Notice"), to the effect of the foregoing (provided that the Company will not disclose the content of any material non-public information to the Buyer in any Suspension Notice) and, upon receipt of such Suspension Notice, the Buyer will refrain from selling any Registrable Securities pursuant to the Registration Statement (a "Suspension") until the Buyer's receipt of copies of a supplemented or amended Prospectus prepared and filed by the Company or until it is advised in writing by the Company that the current Prospectus may be used, and has received copies of any additional or supplemental filings that are incorporated or deemed incorporated by reference in any such Prospectus. In the event of any Suspension, the Company shall use its best efforts to cause the use of the Prospectus so suspended to be resumed as soon as practicable after the delivery of a Suspension Notice to the Buyer and to notify the Buyer in writing that the use of such Prospectus may be resumed (i) simultaneously with the issuance of a Report of Foreign Private Issuer on Form 6-K that is incorporated or deemed incorporated by reference in any such Prospectus and as a result of which the use of the Prospectus may be resumed or (ii) promptly (and in any event no later than one hour) after determining that the current Prospectus may be used. Notwithstanding anything contained in this Section 8(f) to the contrary, the Buyer shall not be prohibited from selling any Registrable Securities under a Registration Statement as a result of a Suspension on more than two occasions and an aggregate of 30 days in any twelve month period for all Suspensions in such period.

(g) Additional Registration Statements. Subject to the provisions of Section 8(a)(iii), if during the Effectiveness Period the number of Registrable Securities at any time exceeds 100% of the number of Ordinary Shares then registered for resale by the Buyer in a Registration Statement, then the Company shall file as soon as reasonably practicable, but in any case prior to the thirtieth (30^{th}) day thereafter, an additional Registration Statement covering the resale by the Buyer of not less than the number of such Registrable Securities not yet registered and all of the provisions of this Section 8 shall apply with respect to such Registration Statement, mutatis mutandis.

9 **MISCELLANEOUS**.

(a) Governing Law; Jurisdiction; Jury Trial. This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York, without giving effect to the principles of conflicts of law (whether of the State of New York or any other jurisdictions) that would cause the application of the laws of any jurisdictions other than the State of New York. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in The City of New York, Borough of Manhattan, for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is brought in an inconvenient forum or that the venue of such suit, action or proceeding is improper. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address for such notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. Nothing contained herein shall be deemed or operate to preclude the Buyer from bringing suit or taking other legal action against the Company in any other jurisdiction to collect on the Company's obligations to the Buyer or to enforce a judgment or other court ruling in favor of the Holder. EACH PARTY HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE TO, AND AGREES NOT TO REQUEST, A JURY TRIAL FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION WITH OR ARISING OUT OF THIS AGREEMENT OR ANY TRANSACTION CONTEMPLATED HEREBY.

(b) Counterparts. This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party. In the event that any signature is delivered by facsimile transmission or by an e-mail which contains a portable document format (.pdf) file of an executed signature page, such signature page shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such signature page were an original thereof.

(c) Headings; Gender. The headings of this Agreement are for convenience of reference and shall not form part of, or affect the interpretation of, this Agreement. Unless the context clearly indicates otherwise, each pronoun herein shall be deemed to include the masculine, feminine, neuter, singular and plural forms thereof. The terms "including," "includes," "include" and words of like import shall be construed broadly as if followed by the words "without limitation." The terms "herein," "hereunder," "hereof" and words of like import refer to this entire Agreement instead of just the provision in which they are found.

(d) Severability. If any provision of this Agreement is prohibited by law or otherwise determined to be invalid or unenforceable by a court of competent jurisdiction, the provision that would otherwise be prohibited, invalid or unenforceable shall be deemed amended to apply to the broadest extent that it would be valid and enforceable, and the invalidity or unenforceability of such provision shall not affect the validity of the remaining provisions of this Agreement so long as this Agreement as so modified continues to express, without material change, the original intentions of the parties as to the subject matter hereof and the prohibited nature, invalidity or unenforceability of the provision(s) in question does not substantially impair the respective expectations or reciprocal obligations of the parties or the practical realization of the benefits that would otherwise be conferred upon the parties. The parties will endeavor in good faith negotiations to replace the prohibited, invalid or unenforceable provision(s) with a valid provision(s), the effect of which comes as close as possible to that of the prohibited, invalid or unenforceable provision(s).

(e) Entire Agreement; Amendments Notwithstanding anything else contained herein, this Agreement and the Warrant constitute the entire agreement between the parties hereto and supersede any prior understandings or agreements concerning the purchase and sale of the Units and the resale registration of the Registrable Securities. This Agreement may be modified, amended or waived only pursuant to a written instrument signed by the Company and the Buyer.

(f) Notices. All notices, requests, consents and other communications hereunder shall be in writing, shall be delivered via Federal Express (or other recognized international express courier) or facsimile; shall be deemed given (i) if delivered by a recognized international express courier, upon delivery to the recipient and (ii) if delivered by facsimile or email, upon electronic confirmation of receipt (including by reply email); and shall be delivered to the persons at the addresses or facsimile numbers such forth below (or to such persons or via such facsimile number or address as subsequently modified by written notice given in accordance with this Section 9(f)).

If to the Company:	RedHill Biopharma Ltd. 21 Ha'arba'a St. Tel-Aviv 64739, Israel Facsimile: +972 (0)3 541 3144 Email: ori@redhillbio.com Attention: Ori Shilo
With a copy (for informational purposes only) to:	Gross, Kleinhendler, Hodak, Halevy, Greenberg & Co. One Azrieli Center Tel Aviv, Israel 67021 Facsimile: +972 (0)3 607 4411 Email: perry@gkh-law.com Attention: Perry Wildes, Adv.

If to the Buyer:

OrbiMed Israel Partners Limited Partnership
89 Medinat HaYehudim St.
Building E, 11th Floor
Facsimile: +972 9 7732405
Email: DarvishN@OrbiMed.com, and
ChimovitsE@OrbiMed.com
Attention: Nissim Darvish
Erez Chimovits

with a copy (for informational purposes only) to:

Greenberg Traurig, P.A.
333 Avenue of the Americas, Suite 4400
Miami, Florida 33131
Facsimile: (305) 579-0717
Email: GrossmanB@gtlaw.com
Attention: Robert L. Grossman, Esq.

(g) Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and assigns, including, as contemplated below, any assignee or transferee of any of the Offered Securities. The Company shall not assign this Agreement or any rights or obligations hereunder without the prior written consent of the Buyer (which may be granted or withheld in the sole discretion of the Buyer). A Buyer may assign some or all of its rights hereunder in connection with any permitted assignment or transfer of any of its Securities without the consent of the Company, in which event such assignee or transferee (as the case may be) shall be deemed to be the Buyer hereunder with respect to such assigned rights.

(h) No Third Party Beneficiaries. This Agreement is intended for the benefit of the parties hereto and their respective permitted successors and assigns, and is not for the benefit of, nor may any provision hereof be enforced by, any other Person, other than the parties entitled to indemnification pursuant to Section 8(c).

(i) Survival. The representations, warranties, agreements and covenants contained in this Agreement shall survive the Closing indefinitely.

(j) Further Assurances. Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as any other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

(k) Construction. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party. No specific representation or warranty shall limit the generality or applicability of a more general representation or warranty. Each and every reference to the price and/or number of Ordinary Shares, Warrants and or ADSs and any other numbers in this Agreement that relate to the Ordinary Shares, Warrants and or ADSs shall be automatically adjusted for stock splits, stock combinations and other similar transactions that occur with respect to the Ordinary Shares after the date of this Agreement.

(l) Remedies. The Buyer and each holder of any Securities shall have all rights and remedies set forth in this Agreement and the Warrant and all rights and remedies which such holders have been granted at any time under any other agreement or contract and all of the rights which such holders have under any law. Any Person having any rights under any provision of this Agreement shall be entitled to enforce such rights specifically (without posting a bond or other security, to the extent permitted by law), to recover damages by reason of any breach of any provision of this Agreement and to exercise all other rights granted by law. Furthermore, the Company recognizes that in the event that it fails to perform, observe, or discharge any or all of its obligations under this Agreement and/or the Warrant, any remedy at law may prove to be inadequate relief to the Buyer. The Company therefore agrees that the Buyer shall be entitled to seek specific performance and/or temporary, preliminary and permanent injunctive or other equitable relief from any court of competent jurisdiction in any such case without the necessity of proving actual damages and without posting a bond or other security.

[*Signature page follows.*]

IN WITNESS WHEREOF, the Buyer and the Company have executed this Agreement as of the date first written above.

COMPANY:

REDHILL BIOPHARMA LTD.

By: /s/Dror Ben-Asher
Name: Dror Ben-Asher
Title: Chief Executive Officer

By: /s/Ori Shilo
Name: Ori Shilo
Title: Deputy CEO, Finance and Operations

BUYER:

ORBIMED ISRAEL PARTNERS LIMITED PARTNERSHIP

By: ORBIMED ISRAEL BIOFUND GP LIMITED PARTNERSHIP, its General Partner

By: ORBIMED ISRAEL GP LTD., its General Partner

By: /s/ Nissim Darvish
Name: Nissim Darvish
Title: Senior Managing Director

By: /s/ Erez Chimovits
Name: Erez Chimovits
Title: Managing Director

EXHIBIT A

FORM OF WARRANT

THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE BEEN ISSUED AND SOLD TO AN INVESTOR WHO IS NOT A U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT OF 1933, AS AMENDED ("THE SECURITIES ACT")) WITHOUT REGISTRATION UNDER THE SECURITIES ACT IN RELIANCE UPON REGULATION S PROMULGATED UNDER THE SECURITIES ACT. THESE SECURITIES, AND THE SECURITIES INTO WHICH THEY ARE EXERCISABLE, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (2) PURSUANT TO AN OTHER EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT, AS CONFIRMED BY AN OPINION OF UNITED STATES COUNSEL THAT IS SATISFACTORY TO THE COMPANY, OR (3) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE STATE SECURITIES LAWS AND THE SECURITIES LAWS OF OTHER JURISDICTIONS. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES.

REDHILL BIOPHARMA LTD.

WARRANT TO PURCHASE AMERICAN DEPOSITARY SHARES

Warrant No.: 1
Number of American Depositary Shares: 252,632
Date of Issuance: January 8, 2014 (the "**Issuance Date**")

RedHill Biopharma Ltd., a company limited by shares organized under the laws of the State of Israel (the "**Company**"), hereby certifies that, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, OrbiMed Israel Partners Limited Partnership, the registered holder hereof or its permitted assigns (the "**Holder**"), is entitled, subject to the terms set forth below, to purchase from the Company, at the Exercise Price (as defined below) then in effect, upon exercise of this Warrant to Purchase American Depositary Shares ("**ADSs**") (including any Warrants to Purchase American Depositary Shares issued in exchange, transfer or replacement hereof, the "**Warrant**"), at any time or times on or after the Issuance Date, but not after 11:59 p.m., New York time, on the Expiration Date (as defined below), 252,632 (subject to adjustment as provided herein) ADSs (the "**Warrant ADSs**"). For purposes of clarification, each ADS represents ten ordinary shares, par value NIS 0.01 per share of the Company (the "**Ordinary Shares**"). Except as otherwise defined herein, capitalized terms in this Warrant shall have the meanings set forth in Section 24. This Warrant is the Warrant issued pursuant to that certain Securities Purchase Agreement, dated as of December 30, 2013, by and between the Company and the Holder (as the same may be amended from time to time, the "**Securities Purchase Agreement**").

10 **EXERCISE OF WARRANT.**

(a) Mechanics of Exercise.

(i) Subject to the terms and conditions hereof (including, without limitation, the limitations set forth in Section 1(g)(i)), this Warrant may be exercised by the Holder on any day on or after the Issuance Date, in whole or in part, by delivery (via electronic mail or, if electronic mail is not available, by any other method of providing notice provided for in Section 8 hereof) of a written notice, in the form attached hereto as Exhibit A (the "**Exercise Notice**"), of the Holder's election to exercise this Warrant. Any exercise by the Holder of this Warrant must be pursuant to a valid exemption from registration under the Securities Act or a transaction not subject to the registration provisions of the Securities Act. Within two (2) Trading Days following an exercise of this Warrant as aforesaid, the Holder shall deliver payment to the Company of an amount equal to the Exercise Price in effect on the date of such exercise multiplied by the number of Warrant ADSs as to which this Warrant was so exercised (the "**Aggregate Exercise Price**"), via wire transfer of immediately available funds if the Holder did not notify the Company in such Exercise Notice that such exercise was made pursuant to a Cashless Exercise (as defined in Section 10(d)). The Holder shall not be required to deliver the original of this Warrant in order to effect an exercise hereunder. Notwithstanding anything herein to the contrary, the Holder shall not be required to physically surrender this Warrant to the Company until the Holder has purchased all of the Warrant ADSs available hereunder and the Warrant has been exercised in full, in which case, the Holder shall surrender this Warrant to the Company for cancellation within three (3) Trading Days of the date the final Notice of Exercise is delivered to the Company. Partial exercises of this Warrant resulting in purchases of a portion of the total number of Warrant ADSs available hereunder shall have the effect of lowering the outstanding number of Warrant ADSs purchasable hereunder in an amount equal to the applicable number of Warrant ADSs purchased. The Company shall maintain records showing the number of Warrant ADSs purchased and the date of such purchases. **The Holder and any assignee, by acceptance of this Warrant, acknowledge and agree that, by reason of the provisions of this paragraph, following the purchase of a portion of the Warrant ADSs hereunder, the number of Warrant ADSs available for purchase hereunder at any given time may be less than the amount stated on the face hereof.**

(ii) On or before the second (2nd) Trading Day following the date on which the Company has received an Exercise Notice, the Company shall transmit by facsimile or electronic mail an acknowledgment of confirmation of receipt of such Exercise Notice, in the form attached hereto as Exhibit B, to the Holder and The Bank of New York Mellon, the Depositary for the ADSs (the "**Depositary**"). On or before the fifth (5^{th}) Trading Day following the date on which the Company has received such Exercise Notice, subject to receipt of the Aggregate Exercise Price therefor (the "**Share Delivery Date**"), the Company shall (X) issue and deposit with the Depositary a number of Ordinary Shares that will be represented by the number of Warrant ADSs to which the Holder is entitled in respect of that exercise, (Y) pay the fee of the Depositary for the issuance of that number of ADSs and (Z) at the option of the Holder (as set forth in the Exercise Notice), instruct the Depositary to either (1) execute and deliver to that Holder, by physical delivery via overnight courier to the address specified by the Holder in the Exercise Notice by the Share Delivery Date, an American Depositary Receipt ("**ADR**") evidencing that number of Warrant ADSs or (2) record the issuance of the ADSs in book-entry form and deliver to the Holder evidence of such issuance (in each case, subject to the restrictive legends or stop transfer instructions, if any, required by Section 5 of the Securities Purchase Agreement). If a restrictive legend is not then required to be included on the Warrant ADSs by Section 5 of the Securities Purchase Agreement, certificates for the Warrant ADSs purchased hereunder shall be transmitted by the Depositary to the Holder by crediting the account of the Holder's prime broker with The Depository Trust Company ("**DTC**") through its Deposit or Withdrawal at Custodian system if the Company is then a participant in such system. Upon delivery of an Exercise Notice and (unless such exercise was made pursuant to a Cashless Exercise) payment of the Aggregate Exercise Price, the Holder shall be deemed for all corporate purposes to have become the holder of record of the Warrant ADSs with respect to which this Warrant has been exercised, irrespective of the date such Warrant ADSs are credited to the Holder's DTC account, the date of delivery of the certificates evidencing such Warrant ADSs or the date of issuance of the ADSs in book-entry form (as the case may be), except to the extent provided by law. If this Warrant is submitted in connection with any exercise pursuant to this Section 10(a) and the number of Warrant ADSs represented by this Warrant submitted for exercise is greater than the number of Warrant ADSs being acquired upon an exercise, then, at the request of the Holder, the Company shall as soon as practicable and in no event later than four (4) Business Days after any exercise and at its own expense, issue and deliver to the Holder (or its designee) a new Warrant (in accordance with Section 16(d)) representing the right to purchase the number of Warrant ADSs purchasable immediately prior to such exercise under this Warrant, less the number of Warrant ADSs with respect to which this Warrant is exercised. No fractional ADSs are to be issued upon the exercise of this Warrant, but rather, in lieu of delivering such fractional ADS, the Company shall pay to the exercising Holder an amount in cash equal to the Closing Sale Price on the Principal Market of such fractional ADS on the date of exercise. The Company shall pay any and all taxes and fees which may be payable with respect to the issuance and delivery of Warrant ADSs upon exercise of this Warrant, provided that in the event certificates for Warrant Shares are to be issued in a name other than the name of the Holder, the Company may require, as a condition thereto, the payment of a sum sufficient to reimburse it for any transfer tax incidental thereto.

(b) Exercise Price. For purposes of this Warrant, "**Exercise Price**" means $11.00, subject to adjustment as provided herein.

(c) Company's Failure to Timely Deliver Securities. If the Depositary fails, for any reason or for no reason, to deliver the Warrant ADSs upon an exercise by the Share Delivery Date, and if on or after the Share Delivery Date the Holder (or any other Person in respect, or on behalf, of the Holder) purchases (in an open market transaction or otherwise) ADSs or Ordinary Shares to deliver in satisfaction of a sale to a non-affiliate by the Holder of ADSs issuable upon such exercise that the Holder anticipated receiving from the Depositary upon such exercise (a "**Buy-In**"), then, in addition to all other remedies available to the Holder, the Company shall, (A) within three (3) Trading Days after the Holder's request promptly honor its obligation to cause the Depositary to issue and deliver to the Holder one or more ADRs representing such Warrant ADSs, record the issuance of the ADSs in book-entry form and deliver to the Holder evidence of such issuance or credit the Holder's balance account with DTC for the number of Warrant ADSs to which the Holder is entitled upon the Holder's exercise hereunder (as the case may be) and (B) pay cash to the Holder in an amount equal to the excess (if any) of the Holder's total purchase price (including brokerage commissions and other out-of-pocket expenses, if any) for the ADSs or Ordinary Shares so purchased (including, without limitation, by any other Person in respect, or on behalf, of the Holder) over the product of (1) such number of Warrant ADSs and (2) the price at which the sell order giving rise to the Holder's purchase obligation was executed. For example, if the Holder purchases ADSs having a total purchase price of $11,000 to cover a Buy-In with respect to an attempted exercise of Warrant ADSs with an aggregate sale price giving rise to such purchase obligation of $10,000, under clause (B) of the immediately preceding sentence the Company shall be required to pay the Holder $1,000. The Holder shall provide the Company written notice indicating the amounts payable to the Holder in respect of the Buy-In and, upon request of the Company, evidence of the amount of such loss.

(d) Cashless Exercise. Notwithstanding anything contained herein to the contrary (other than Section 1(g)(i) below), the Holder may, in its sole discretion, exercise this Warrant in whole or in part and, in lieu of making the cash payment otherwise contemplated to be made to the Company upon such exercise in payment of the Aggregate Exercise Price, elect instead to receive upon such exercise the "Net Number" of Warrant ADSs determined according to the following formula (a "**Cashless Exercise**"):

$$\text{Net Number} = \frac{(A \times B) - (A \times C)}{B}$$

For purposes of the foregoing formula:

A= the total number of Warrant ADSs with respect to which this Warrant is then being exercised.

B= the weighted average of the Closing Sale Prices of the ADSs for the five Trading Days immediately preceding the date of the applicable Exercise Notice.

C= the Exercise Price then in effect for the applicable Warrant ADSs at the time of such exercise.

(e) Rule 144. For purposes of Rule 144(d) promulgated under the Securities Act, as in effect on the date hereof, the Warrant ADSs issued in a Cashless Exercise shall be deemed to have been acquired by the Holder, and the holding period for the Warrant ADSs shall be deemed to have commenced, on the date this Warrant was originally issued pursuant to the Securities Purchase Agreement.

(f) Disputes. In the case of a dispute as to the determination of the Exercise Price or the arithmetic calculation of the number of Warrant ADSs to be issued pursuant to the terms hereof, the Company shall promptly issue to the Holder the number of Warrant ADSs that are not disputed.

(g) Holder's Exercise Limitations.

(i) *Beneficial Ownership*. Notwithstanding anything to the contrary contained in this Warrant, this Warrant shall not be exercisable by the Holder hereof to the extent (but only to the extent) that after giving effect to such issuance after exercise as set forth in the applicable Exercise Notice the Holder (together with the Holder's Affiliates, and any other Persons acting as a group together with the Holder or any of the Holder's Affiliates), would beneficially own in excess of 9.9% (the "**Maximum Percentage**") of the Ordinary Shares of the Company then outstanding. For purposes of the foregoing sentence, the number of Ordinary Shares beneficially owned by the Holder and its Affiliates shall include the number of Ordinary Shares underlying ADSs issuable upon exercise of this Warrant with respect to which such determination is being made, but shall exclude the number of Ordinary Shares underlying ADSs which would be issuable upon (A) exercise of the remaining, nonexercised portion of this Warrant beneficially owned by the Holder or any of its Affiliates and (B) exercise or conversion of the unexercised or unconverted portion of any other securities of the Company subject to a limitation on conversion or exercise analogous to the limitation contained herein beneficially owned by the Holder or any of its Affiliates. Except as set forth in the preceding sentence, for purposes of this Section 1(g)(i), beneficial ownership shall be calculated in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder, it being acknowledged by the Holder that the Company is not representing to the Holder that such calculation is in compliance with Section 13(d) of the Exchange Act and the Holder is solely responsible for any schedules required to be filed in accordance therewith. To the extent that the limitation contained in this Section 1(g)(i) applies, the determination of whether this Warrant is exercisable (in relation to other securities owned by the Holder together with any Affiliates) and of which portion of this Warrant is exercisable shall be in the sole discretion of the Holder, and the submission of an Exercise Notice shall be deemed to be the Holder's determination of whether this Warrant is exercisable (in relation to other securities owned by the Holder together with any Affiliates) and of which portion of this Warrant is exercisable, in each case subject to the Beneficial Ownership Limitation. To ensure compliance with this restriction, the Holder will be deemed to represent to the Company each time it delivers an Exercise Notice that such Exercise Notice has not violated the restrictions set forth in this paragraph and the Company shall have no obligation to verify or confirm the accuracy of such determination. In addition, a determination as to any group status as contemplated above shall be determined in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder. For purposes of this Section 1(g)(i), in determining the number of outstanding Ordinary Shares, a Holder may rely on the number of outstanding Ordinary Shares as stated in the most recent of the following: (X) the Company's most recent periodic or annual report filed with the Securities and Exchange Commission (the "**SEC**"), as the case may be, (Y) a more recent public announcement by the Company or (Z) a more recent written notice by the Company or the Depositary setting forth the number of Ordinary Shares outstanding. No prior inability to exercise this Warrant pursuant to this paragraph shall have any effect on the applicability of the provisions of this paragraph with respect to any subsequent determination of exercisability. For any reason at any time, upon the written or oral request of the Holder, the Company shall within two (2) Business Days confirm orally and in writing to the Holder the number of Ordinary Shares then outstanding, including by virtue of any prior conversion or exercise of convertible or exercisable securities into Ordinary Shares, including, without limitation, pursuant to this Warrant or securities issued pursuant to the Securities Purchase Agreement. By written notice to the Company, the holder may waive the provisions of this Section 1(g)(i) or increase or decrease the Maximum Percentage to any other percentage specified in such notice; provided that any such waiver or increase will not be effective until the sixty first (61^{st}) day after such notice is delivered to the Company. The Company's obligation to issue Warrant ADSs in excess of the limitation referred to in this Section 1(g)(i) shall be suspended (and shall not terminate or expire notwithstanding any contrary provisions hereof) until such time, if any, as such Warrant ADSs may be issued in compliance with such limitation, but in no event later than the Expiration Date.

(ii) *Insufficient Authorized Shares*. The Company shall at all times keep reserved for issuance under this Warrant a number of Ordinary Shares as shall be necessary to satisfy the Company's obligation to issue the Warrant ADSs hereunder. If, notwithstanding the foregoing, and not in limitation thereof, at any time while this Warrant remains outstanding the Company does not have a sufficient number of authorized and unreserved Ordinary Shares to satisfy its obligation to reserve for issuance upon exercise of this Warrant at least a number of Ordinary Shares equal to the number of Ordinary Shares as shall from time to time be necessary to effect the exercise of this Warrant (the "**Required Reserve Amount**") (an "**Authorized Share Failure**"), then the Company shall immediately take all action necessary to increase the Company's authorized Ordinary Shares to an amount sufficient to allow the Company to reserve the Required Reserve Amount. Without limiting the generality of the foregoing sentence, as soon as practicable after the date of the occurrence of an Authorized Share Failure, but in no event later than sixty (60) days after the occurrence of such Authorized Share Failure, the Company shall hold a meeting of its stockholders and take all action otherwise required for the approval of an increase in the number of Ordinary Shares. In connection with such meeting, the Company shall provide each stockholder with a proxy statement, if required under applicable Israeli or U.S. federal law, and shall use its best efforts to solicit its stockholders' approval of such increase in authorized number of Ordinary Shares and to cause its board of directors to recommend to the stockholders that they approve such proposal.

(iii) *TASE Restrictions.* Notwithstanding any provisions of this Warrant, if prohibited under the regulations of the Tel Aviv Stock Exchange (the "**TASE**") (and the Ordinary Shares are listed thereon), the Holder may not exercise this Warrant on the record date of any one of the following events: (i) distribution of bonus shares; (ii) rights offering; (iii) distribution of dividends; (iv) consolidation of share capital; (v) consolidation of shares; (vi) split of share capital; (vii) reduction of capital (each of the above will be referred to below as a "**Company Event**"). In addition, if prohibited under the regulations of the TASE (and the Ordinary Shares are listed thereon), in the event the ex-date (as defined in the TASE's regulations) of a Company Event on the TASE precedes the record date of such Company Event, this Warrant may not be exercised on such ex-date.

11 **ADJUSTMENT OF EXERCISE PRICE AND NUMBER OF WARRANT ADSS**. The Exercise Price and number of Warrant ADSs issuable upon exercise of this Warrant are subject to adjustment from time to time as set forth in this Section 11.

(a) Adjustment upon Subdivision or Combination of Ordinary Shares or ADSs. Without limiting any provision of Section 13, if the Company, at any time on or after the date of the Securities Purchase Agreement: (i) pays a stock dividend on one or more classes of its then outstanding Ordinary Shares or ADSs or otherwise makes a distribution on any class of capital stock that is payable in Ordinary Shares or ADSs, (ii) subdivides (by any stock split, stock dividend, recapitalization or otherwise) one or more classes of its then outstanding Ordinary Shares or ADSs into a larger number of Ordinary Shares or ADSs or (iii) combines (by combination, reverse stock split or otherwise) one or more classes of its then outstanding Ordinary Shares or ADSs into a smaller number of Ordinary Shares or ADSs, then in each such case the Exercise Price shall be multiplied by a fraction of which the numerator shall be the number of Ordinary Shares or ADSs, as applicable, outstanding immediately before such event and of which the denominator shall be the number of Ordinary Shares or ADSs, as applicable, outstanding immediately after such event. Any adjustment made pursuant to clause (i) of this paragraph shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution, and any adjustment pursuant to clause (ii) or (iii) of this paragraph shall become effective immediately after the effective date of such subdivision or combination. If any event requiring an adjustment under this paragraph occurs during the period that an Exercise Price is calculated hereunder, then the calculation of such Exercise Price shall be adjusted appropriately to reflect such event.

(b) Number of Warrant ADSs. Simultaneously with any adjustment to the Exercise Price pursuant to paragraph (a) of this Section 11, the number of Warrant ADSs that may be purchased upon exercise of this Warrant shall be increased or decreased proportionately, so that after such adjustment the aggregate Exercise Price payable hereunder for the adjusted number of Warrant ADSs shall be the same as the aggregate Exercise Price in effect immediately prior to such adjustment (without regard to any limitations on exercise contained herein). Any adjustments made with respect to the number of Warrant ADSs hereunder as a result of a change in price or number of Ordinary Shares shall be made with respect to the ADSs at a multiple equal to the number of Ordinary Shares then represented by the ADSs.

(c) Other Events. In the event that the Company (or any Subsidiary (as defined in the Securities Purchase Agreement) whether now existing or hereafter created or acquired) shall take any action to which the provisions hereof are not strictly applicable, or if any event occurs of the type contemplated by the provisions of this Section 11 but not expressly provided for by such provisions, then the Company's board of directors shall in good faith determine and implement an appropriate adjustment in the Exercise Price and the number of Warrant ADSs (if applicable) so as to protect the rights of the Holder, provided that no such adjustment pursuant to this Section 11(c) will increase the Exercise Price or decrease the number of Warrant ADSs as otherwise determined pursuant to this Section 11, provided further that if the Holder does not accept such adjustments as appropriately protecting its interests hereunder against such dilution, then the Company's board of directors and the Holder shall agree, in good faith, upon an independent investment bank of nationally recognized standing to make such appropriate adjustments, whose determination shall be final and binding and whose fees and expenses shall be borne by the Company.

(d) Calculations. All calculations under this Section 11 shall be made by rounding to the nearest one-hundred thousandth of a cent or the nearest 1/100th of a share, as applicable. The number of Ordinary Shares or ADSs outstanding at any given time shall not include Ordinary Shares or ADSs owned or held by or for the account of the Company, and the disposition of any such Ordinary Shares or ADSs shall be considered an issue or sale thereof for purposes of this Warrant.

12 **RIGHTS UPON DISTRIBUTION OF ASSETS**. In addition to any adjustments pursuant to Section 11 above, if the Company shall declare or make any dividend or other distribution of its assets (or rights to acquire its assets) to holders of Ordinary Shares or ADSs, by way of return of capital or otherwise (including, without limitation, any distribution of cash, stock or other securities, property or options by way of a dividend, spin off, reclassification, corporate rearrangement, scheme of arrangement or other similar transaction) (a "**Distribution**"), at any time after the issuance of this Warrant, then, in each such case, (a) in the case of a Distribution in cash, if required by the regulations of the TASE (and the Ordinary Shares are listed thereon), the Exercise Price shall be decreased in respect of each Warrant ADS by the amount of the dividend per share (if cash) and (b) in all other cases provided in this Section 3, upon any exercise of the Warrant, the Holder shall be entitled to participate in such Distribution to the same extent that the Holder would have participated therein if the Holder had held the number of ADSs acquirable upon complete exercise of this Warrant (without regard to any limitations on exercise hereof, including without limitation, the Maximum Percentage) immediately before the date on which a record is taken for such Distribution, or, if no such record is taken, the date as of which the record holders of Ordinary Shares or ADSs, as applicable, are to be determined for the participation in such Distribution (provided, however, to the extent that the Holder's right to participate in any such Distributions would result in the Holder exceeding the Maximum Percentage, then the Holder shall not be entitled to participate in such Distribution to such extent (or the beneficial ownership of any Ordinary Shares as a result of such Distribution to such extent) and such Distribution to such extent shall be held in abeyance for the benefit of the Holder until such time, if ever, as its right thereto would not result in the Holder exceeding the Maximum Percentage).

13 **PURCHASE RIGHTS; FUNDAMENTAL TRANSACTIONS.**

(a) Purchase Rights. In addition to any adjustments pursuant to Section 11 above, if at any time the Company grants, issues or sells any Options, Convertible Securities or rights to purchase stock, warrants, securities or other property pro rata to all or substantially all of the record holders of the Ordinary Shares or ADSs (the "**Purchase Rights**"), the Holder will be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which the Holder could have acquired if the Holder had held the number of ADSs acquirable upon complete exercise of this Warrant (without regard to any limitations on exercise hereof, including without limitation, the Maximum Percentage) immediately before the date on which a record is taken for the grant, issuance or sale of such Purchase Rights, or, if no such record is taken, the date as of which such record holders of Ordinary Shares or ADSs, as applicable, are to be determined for the grant, issue or sale of such Purchase Rights (provided, however, to the extent that the Holder's right to participate in any such Purchase Right would result in the Holder exceeding the Maximum Percentage, then the Holder shall not be entitled to participate in such Purchase Right to such extent (or beneficial ownership of any Ordinary Shares as a result of such Purchase Right to such extent) and such Purchase Right to such extent shall be held in abeyance for the Holder until such time, if ever, as its right thereto would not result in the Holder exceeding the Maximum Percentage).

(b) Fundamental Transactions. The Company shall not enter into or be party to a Fundamental Transaction unless (i) the Successor Entity assumes in writing all of the obligations of the Company under this Warrant and the Securities Purchase Agreement in accordance with the provisions of this Section 13(b) pursuant to written agreements in form and substance satisfactory to the Holder and approved by the Holder prior to such Fundamental Transaction, including agreements to deliver to the Holder in exchange for this Warrant a security of the Successor Entity evidenced by a written instrument substantially similar in form and substance to this Warrant, including, without limitation, which is exercisable for a corresponding number of shares of capital stock equivalent to the ADSs acquirable and receivable upon exercise of this Warrant prior to such Fundamental Transaction (or the Ordinary Shares underlying such ADSs), and with an exercise price which applies the exercise price hereunder to such shares of capital stock (but taking into account the relative value of the ADSs, or the Ordinary Shares underlying such ADSs, as applicable, pursuant to such Fundamental Transaction and the value of such shares of capital stock, such adjustments to the number of shares of capital stock and such exercise price being for the purpose of protecting the economic value of this Warrant immediately prior to the consummation of such Fundamental Transaction) and (ii) the Successor Entity (including its Parent Entity) is a publicly traded corporation whose common stock is quoted on or listed for trading on an Eligible Market; provided, however, that in connection with a Fundamental Transaction in which the consideration received by the Company and/or its shareholders, as applicable, consists solely of cash, this Warrant shall terminate upon the closing of such Fundamental Transaction to the extent not previously exercised provided that, contemporaneously with such Closing, the Company shall cause this Warrant to be exchanged, on and as of the closing thereof, without a requirement of formal exercise, for the consideration that Holder would have received (less the Exercise Price) had the Holder elected to exercise this Warrant in full as of immediately prior to the closing of such Fundamental Transaction. Upon the consummation of each Fundamental Transaction, unless this Warrant is exchanged for cash as provided in the preceding sentence, the Successor Entity shall succeed to, and be substituted for (so that from and after the date of the applicable Fundamental Transaction, the provisions of this Warrant and the Securities Purchase Agreement referring to the "Company" shall refer instead to the Successor Entity), and may exercise every right and power of the Company and shall assume all of the obligations of the Company under this Warrant and the Securities Purchase Agreement with the same effect as if such Successor Entity had been named as the Company herein. Upon consummation of each Fundamental Transaction, the Successor Entity shall deliver to the Holder confirmation that there shall be issued upon exercise of this Warrant at any time after the consummation of the applicable Fundamental Transaction, in lieu of the Warrant ADSs (or other securities, cash, assets or other property (except such items still issuable under Sections 12 and 13(a) above, which shall continue to be receivable thereafter)) issuable upon the exercise of this Warrant prior to the applicable Fundamental Transaction, such shares of publicly traded common stock (or its equivalent) of the Successor Entity (including its Parent Entity) which the Holder would have been entitled to receive upon the happening of the applicable Fundamental Transaction had this Warrant been exercised immediately prior to the applicable Fundamental Transaction, as adjusted in accordance with the provisions of this Warrant. In addition to and not in substitution for any other rights hereunder, prior to the consummation of each Fundamental Transaction pursuant to which holders of Ordinary Shares or ADSs are entitled to receive securities or other assets with respect to or in exchange for Ordinary Shares or ADSs (a "**Corporate Event**"), the Company shall make appropriate provision to ensure that the Holder will thereafter have the right to receive upon an exercise of this Warrant at any time after the consummation of the applicable Fundamental Transaction but prior to the Expiration Date, in lieu of the ADSs (or other securities, cash, assets or other property (except such items still issuable under Sections 12 and 13(a) above, which shall continue to be receivable thereafter)) issuable upon the exercise of the Warrant prior to such Fundamental Transaction, such shares of stock, securities, cash, assets or any other property whatsoever (including warrants or other purchase or subscription rights) which the Holder would have been entitled to receive upon the happening of the applicable Fundamental Transaction had this Warrant been exercised immediately prior to the applicable Fundamental Transaction. Provision made pursuant to the preceding sentence shall be in form and substance reasonably satisfactory to the Holder.

(c) Application. The provisions of this Section 13 shall apply similarly and equally to successive Fundamental Transactions and Corporate Events and shall be applied as if this Warrant (and any such subsequent warrants) were fully exercisable (provided that the Holder shall continue to be entitled to the benefit of the Maximum Percentage, applied however with respect to shares of capital stock registered under the Exchange Act and thereafter receivable upon exercise of this Warrant (or any such other warrant)).

1 4 **NONCIRCUMVENTION**. The Company hereby covenants and agrees that the Company will not, by amendment of its Articles of Association or other organizational documents, or through any reorganization, transfer of assets, consolidation, merger, scheme of arrangement, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, and will at all times in good faith carry out all the provisions of this Warrant and take all action as may be required to protect the rights of the Holder. Without limiting the generality of the foregoing, the Company (a) shall not increase the par value of any Ordinary Shares underlying the ADSs receivable upon the exercise of this Warrant above the Exercise Price then in effect and (b) shall take all such actions as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and non-assessable Ordinary Shares and ADSs upon the exercise of this Warrant.

15 **WARRANT HOLDER NOT DEEMED A STOCKHOLDER**. Except as otherwise specifically provided herein, the Holder, solely in its capacity as a holder of this Warrant, shall not be entitled to vote or receive dividends or be deemed the holder of share capital of the Company or a holder of ADSs for any purpose, nor shall anything contained in this Warrant be construed to confer upon the Holder, solely in its capacity as the Holder of this Warrant, any of the rights of a stockholder of the Company or any right to vote, give or withhold consent to any corporate action (whether any reorganization, issue of stock, reclassification of stock, consolidation, merger, conveyance or otherwise), receive notice of meetings, receive dividends or subscription rights, or otherwise, prior to the issuance to the Holder of the Warrant ADSs which it is then entitled to receive upon the due exercise of this Warrant. In addition, nothing contained in this Warrant shall be construed as imposing any liabilities on the Holder to purchase any securities (upon exercise of this Warrant or otherwise) or as a stockholder of the Company, whether such liabilities are asserted by the Company or by creditors of the Company. Notwithstanding this Section 15, the Company shall provide the Holder with copies of the same notices and other information given to the stockholders of the Company generally, contemporaneously with the giving thereof to the stockholders, unless such notices or other information is filed or submitted to the SEC and publicly available on the SEC's Electronic Data Gathering, Analysis, and Retrieval system.

16 **REISSUANCE OF WARRANTS.**

(a) Transfer of Warrant. If this Warrant is to be transferred, the Holder shall surrender this Warrant to the Company, whereupon the Company will forthwith issue and deliver upon the order of the Holder a new Warrant (in accordance with Section 16(d)), registered as the Holder may request, representing the right to purchase the number of Warrant ADSs being transferred by the Holder and, if less than the total number of Warrant ADSs then underlying this Warrant is being transferred, a new Warrant (in accordance with Section 16(d)) to the Holder representing the right to purchase the number of Warrant ADSs not being transferred.

(b) Lost, Stolen or Mutilated Warrant. Upon receipt by the Company of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant (as to which a written certification and the indemnification contemplated below shall suffice as such evidence), and, in the case of loss, theft or destruction, of any indemnification undertaking by the Holder to the Company in customary and reasonable form and, in the case of mutilation, upon surrender and cancellation of this Warrant, the Company shall execute and deliver to the Holder a new Warrant (in accordance with Section 16(d)) representing the right to purchase the Warrant ADSs then underlying this Warrant.

(c) Exchangeable for Multiple Warrants. This Warrant is exchangeable, upon the surrender hereof by the Holder at the principal office of the Company, for a new Warrant or Warrants (in accordance with Section 16(d)) representing in the aggregate the right to purchase the number of Warrant ADSs then underlying this Warrant, and each such new Warrant will represent the right to purchase such portion of such Warrant ADSs as is designated by the Holder at the time of such surrender; provided, however, no warrants for fractional ADSs shall be given.

(d) Issuance of New Warrants. Whenever the Company is required to issue a new Warrant pursuant to the terms of this Warrant, such new Warrant (i) shall be of like tenor with this Warrant, (ii) shall represent, as indicated on the face of such new Warrant, the right to purchase the Warrant ADSs then underlying this Warrant (or in the case of a new Warrant being issued pursuant to Section 16(a) or Section 16(b), the Warrant ADSs designated by the Holder which, when added to the number of shares of Warrant ADSs underlying the other new Warrants issued in connection with such issuance, does not exceed the number of Warrant ADSs then underlying this Warrant), (iii) shall have an issuance date, as indicated on the face of such new Warrant, which is the same as the Issuance Date, and (iv) shall have the same rights and conditions as this Warrant.

1 7 **NOTICES**. Whenever notice is required to be given under this Warrant, unless otherwise provided herein, such notice shall be given in accordance with Section 9(f) of the Securities Purchase Agreement. The Company shall provide the Holder with prompt written notice of all actions taken pursuant to this Warrant, including in reasonable detail a description of such action and the reason therefor. Without limiting the generality of the foregoing, the Company will give written notice to the Holder (a) immediately upon each adjustment of the Exercise Price and the number of Warrant ADSs, setting forth in reasonable detail, and certifying, the calculation of such adjustment(s) and (b) at least ten (10) days prior to the date on which the Company closes its books or takes a record (i) with respect to any dividend or distribution upon the Ordinary Shares or ADSs, (ii) with respect to any grants, issuances or sales of any Options, Convertible Securities or rights to purchase stock, warrants, securities or other property to all or substantially all of the holders of Ordinary Shares or ADSs or (iii) for determining rights to vote with respect to any Fundamental Transaction, dissolution or liquidation, provided in each case that such information shall be made known to the public prior to or in conjunction with such notice being provided to the Holder and (c) at least ten (10) Trading Days prior to the consummation of any Fundamental Transaction. To the extent that any notice provided hereunder constitutes, or contains, material, non-public information regarding the Company or any Subsidiary, the Company shall simultaneously file such notice with the SEC (as defined in the Securities Purchase Agreement) pursuant to a Report of Foreign Private Issuer on Form 6-K.

1 8 **AMENDMENT AND WAIVER**. Except as otherwise provided herein (including, without limitation, in the penultimate sentence of Section 1(g)(i)), the provisions of this Warrant may be amended and the Company may take any action herein prohibited, or omit to perform any act herein required to be performed by it, only if the Company has obtained the written consent of the Holder. The Holder shall be entitled, at its option, to the benefit of any amendment of any other similar warrant issued to an Additional Investor (as defined in the Securities Purchase Agreement). No waiver shall be effective unless it is in writing and signed by an authorized representative of the waiving party.

1 9 **SEVERABILITY**. If any provision of this Warrant is prohibited by law or otherwise determined to be invalid or unenforceable by a court of competent jurisdiction, the provision that would otherwise be prohibited, invalid or unenforceable shall be deemed amended to apply to the broadest extent that it would be valid and enforceable, and the invalidity or unenforceability of such provision shall not affect the validity of the remaining provisions of this Warrant so long as this Warrant as so modified continues to express, without material change, the original intentions of the parties as to the subject matter hereof and the prohibited nature, invalidity or unenforceability of the provision(s) in question does not substantially impair the respective expectations or reciprocal obligations of the parties or the practical realization of the benefits that would otherwise be conferred upon the parties. The parties will endeavor in good faith negotiations to replace the prohibited, invalid or unenforceable provision(s) with a valid provision(s), the effect of which comes as close as possible to that of the prohibited, invalid or unenforceable provision(s).

20 **GOVERNING LAW**. This Warrant shall be governed by, and construed in accordance with, the laws of the State of New York, without giving effect to the principles of conflicts of law (whether of the State of New York or any other jurisdictions) that would cause the application of the laws of any jurisdictions other than the State of New York. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in The City of New York, Borough of Manhattan, for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is brought in an inconvenient forum or that the venue of such suit, action or proceeding is improper. The Company hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address for such notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. Nothing contained herein shall be deemed or operate to preclude the Holder from bringing suit or taking other legal action against the Company in any other jurisdiction to collect on the Company's obligations to the Holder or to enforce a judgment or other court ruling in favor of the Holder. THE COMPANY HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE TO, AND AGREES NOT TO REQUEST, A JURY TRIAL FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION WITH OR ARISING OUT OF THIS WARRANT OR ANY TRANSACTION CONTEMPLATED HEREBY.

21 **CONSTRUCTION; HEADINGS**. This Warrant shall be deemed to be jointly drafted by the Company and the Holder and shall not be construed against any Person as the drafter hereof. The headings of this Warrant are for convenience of reference and shall not form part of, or affect the interpretation of, this Warrant. Terms used in this Warrant but defined in the Securities Purchase Agreement shall have the meanings ascribed to such terms on the Closing Date (as defined in the Securities Purchase Agreement) in the Securities Purchase Agreement unless otherwise consented to in writing by the Holder.

22 **REMEDIES, CHARACTERIZATION, OTHER OBLIGATIONS, BREACHES AND INJUNCTIVE RELIEF**. The remedies provided in this Warrant shall be cumulative and in addition to all other remedies available under this Warrant and the Securities Purchase Agreement, at law or in equity (including a decree of specific performance and/or other injunctive relief), and nothing herein shall limit the right of the Holder to pursue actual and consequential damages for any failure by the Company to comply with the terms of this Warrant. The Company covenants to the Holder that there shall be no characterization concerning this instrument other than as expressly provided herein. Amounts set forth or provided for herein with respect to payments, exercises and the like (and the computation thereof) shall be the amounts to be received by the Holder and shall not, except as expressly provided herein, be subject to any other obligation of the Company (or the performance thereof). The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Holder and that the remedy at law for any such breach may be inadequate. The Company therefore agrees that, in the event of any such breach or threatened breach, the holder of this Warrant shall be entitled, in addition to all other available remedies, to an injunction restraining any breach, without the necessity of showing economic loss and without any bond or other security being required. The Company shall provide all information and documentation to the Holder that is requested by the Holder to enable the Holder to confirm the Company's compliance with the terms and conditions of this Warrant (including, without limitation, compliance with Section 11 hereof). The issuance of shares and certificates for shares as contemplated hereby upon the exercise of this Warrant shall be made without charge to the Holder or such shares for any issuance tax or other costs in respect thereof, provided that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any certificate in a name other than the Holder or its agent on its behalf.

2 3 **TRANSFER**. This Warrant may not be offered for sale, sold, transferred or assigned without the consent of the Company, provided that no such consent shall be required in connection with any sale, transfer or assignment by the Holder to any of its Affiliates or any of its limited partners.

24 **CERTAIN DEFINITIONS**. For purposes of this Warrant, the following terms shall have the following meanings:

a. "**Bloomberg**" means Bloomberg, L.P.

b. "**Business Day**" means any day other than a Friday, Saturday, Sunday or other day on which commercial banks in The City of New York are authorized or required by law to remain closed.

c. "**Closing Sale Price**" means, for the ADSs as of any date, the last trade price for such security on the Principal Market, as reported by Bloomberg, or, if the Principal Market begins to operate on an extended hours basis and does not designate the closing trade price, then the last trade price of such security prior to 4:00:00 p.m., New York time, as reported by Bloomberg, or, if the Principal Market is not the principal securities exchange or trading market for such security, the last trade price of such security on the principal securities exchange or trading market where such security is listed or traded as reported by Bloomberg, or if the foregoing does not apply, the last trade price of such security in the over-the-counter market on the electronic bulletin board for such security as reported by Bloomberg, or, if no last trade price is reported for such security by Bloomberg, the average of the closing bid and ask prices of any market makers for such security as reported in the "pink sheets" by OTC Markets Group Inc. (formerly Pink Sheets LLC). If the Closing Sale Price cannot be calculated for a security on a particular date on any of the foregoing bases, the Closing Sale Price of such security on such date shall be the fair market value as mutually determined by the Company and the Holder. All such determinations shall, as applicable, be appropriately adjusted for any stock dividend, stock split, stock combination or other similar transaction during the applicable calculation period.

d. "**Convertible Securities**" means any stock, note, debenture or other security (other than Options) that is, or may become, at any time and under any circumstances, directly or indirectly, convertible into, exercisable or exchangeable for, or which otherwise entitles the holder thereof to acquire, any Ordinary Shares or ADSs.

e. "**Eligible Market**" means The New York Stock Exchange, the NYSE MKT, the Nasdaq Global Select Market, the Nasdaq Global Market or the Principal Market (including each successor to any of the foregoing).

f. "**Expiration Date**" means the date that is the third (3rd) anniversary of the Issuance Date or, if such date falls on a day other than a Business Day or on which trading does not take place on the Principal Market (a "**Holiday**"), the next date that is not a Holiday.

g. "**Fundamental Transaction**" means that (i) the Company (whether now existing or hereafter created or acquired) shall, directly or indirectly, in one or more related transactions, (1) consolidate or merge with or into (whether or not the Company is the surviving corporation) any other Person (unless the shareholders of the Company immediately prior to such consolidation or merger continue to hold a majority of the outstanding shares of the Company immediately following the consolidation or merger), or (2) sell, lease, license, assign, transfer, convey or otherwise dispose of all or substantially all of its properties or assets to any other Person, or (3) allow any other Person to make a purchase, tender or exchange offer that is recommended by the board of directors and accepted by the holders of more than 50% of the outstanding Ordinary Shares (or other voting securities) of the Company (not including any Ordinary Shares (or other voting securities) of the Company held by the Person or Persons making or party to, or associated or affiliated with the Persons making or party to, such purchase, tender or exchange offer) (subject to clause (ii) below, other than a special tender offer under the Israel Companies Law), or (4) consummate a stock or share purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with any other Person whereby such other Person acquires more than 50% of the outstanding Ordinary Shares (or other voting securities) of the Company (not including any Ordinary Shares (or other voting securities) of the Company held by the other Person or other Persons making or party to, or associated or affiliated with the other Persons making or party to, such stock or share purchase agreement or other business combination), or (5) reorganize, recapitalize or reclassify its Ordinary Shares, or (ii) any "person" or "group" (as these terms are used for purposes of Sections 13(d) and 14(d) of the 1934 Act and the rules and regulations promulgated thereunder) is or shall become, as a result directly or indirectly of any transaction to which the Company is a party, the "beneficial owner" (as defined in Rule 13d-3 under the 1934 Act), directly or indirectly, of 50% of the aggregate ordinary voting power represented by issued and outstanding Ordinary Shares (or other voting securities) of the Company.

h. "**Options**" means any rights, warrants or options to subscribe for or purchase Ordinary Shares, ADSs or Convertible Securities.

i. "**Parent Entity**" of a Person means an entity that, directly or indirectly, controls the applicable Person and whose common stock or equivalent equity security is quoted or listed on an Eligible Market, or, if there is more than one such Person or Parent Entity, the Person or Parent Entity with the largest public market capitalization as of the date of consummation of the Fundamental Transaction.

j. "**Person**" means an individual, a limited liability company, a partnership, a joint venture, a corporation, a trust, an unincorporated organization, any other entity or a government or any department or agency thereof.

k. "**Principal Market**" means the Nasdaq Capital Market.

l. "**Successor Entity**" means the Person (or, if so elected by the Holder, the Parent Entity) formed by, resulting from or surviving any Fundamental Transaction or the Person (or, if so elected by the Holder, the Parent Entity) with which such Fundamental Transaction shall have been entered into.

m. "**Trading Day**" means, as applicable, (i) with respect to all price determinations relating to the ADSs, any day on which the ADSs are traded on the Principal Market, or, if the Principal Market is not the principal trading market for the ADSs, then on the principal securities exchange or securities market on which the ADSs are then traded, provided that "Trading Day" shall not include any day on which the ADSs are scheduled to trade on such exchange or market for less than 4.5 hours or any day that the ADSs are suspended from trading during the final hour of trading on such exchange or market (or if such exchange or market does not designate in advance the closing time of trading on such exchange or market, then during the hour ending at 4:00:00 p.m., New York time) unless such day is otherwise designated as a Trading Day in writing by the Holder or (ii) with respect to all determinations other than price determinations relating to the ADSs, any day on which The New York Stock Exchange (or any successor thereto) is open for trading of securities.

[*signature page follows*]

IN WITNESS WHEREOF, RedHill BioPharma Ltd. has caused this Warrant to Purchase American Depositary Shares to be duly executed as of the Issuance Date set out above.

REDHILL BIOPHARMA LTD.

By: _____
Name:
Title:

EXHIBIT A

EXERCISE NOTICE
TO BE EXECUTED BY THE REGISTERED HOLDER TO EXERCISE THIS
WARRANT TO PURCHASE AMERICAN DEPOSITARY SHARES

REDHILL BIOPHARMA LTD.

The undersigned holder hereby exercises the right to purchase _____ of the American Depositary Shares ("**Warrant ADSs**") of RedHill Biopharma Ltd., a company limited by shares organized under the laws of the State of Israel (the "**Company**"), evidenced by Warrant to Purchase American Depositary Shares No. 1 (the "**Warrant**"). Capitalized terms used herein and not otherwise defined shall have the respective meanings set forth in the Warrant.

FORM OF EXERCISE PRICE. The Holder intends that payment of the Exercise Price shall be made as:

_____ a "Cash Exercise" with respect to _____ Warrant ADSs; and/or

_____ a "Cashless Exercise" with respect to _____ Warrant ADSs.

2 5 **PAYMENT OF EXERCISE PRICE** . In the event that the Holder has elected a Cash Exercise with respect to some or all of the Warrant ADSs to be issued pursuant hereto, the Holder shall pay the Aggregate Exercise Price in the sum of $_____ to the Company in accordance with the terms of the Warrant.

2 6 **EXEMPTION FROM REGISTRATION**. THE UNDERSIGNED REPRESENTS THAT, EITHER (A) THAT THE UNDERSIGNED IS NOT A "U.S. PERSON" (AS DEFINED IN RULE 902 UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE " **SECURITIES ACT**")) AND AT THE TIME OF THE THIS EXECUTION AND DELIVERY OF THIS EXERCISE NOTICE THE UNDERSIGNED WAS OUTSIDE OF THE UNITED STATES OR (B) THAT THE UNDERSIGNED IS AN "ACCREDITED INVESTOR" (AS DEFINED IN RULE 501 UNDER THE SECURITIES ACT), THAT THE WARRANT ADSS ARE BEING ACQUIRED FOR THE ACCOUNT OF THE UNDERSIGNED FOR INVESTMENT AND NOT WITH A VIEW TO, OR FOR RESALE IN CONNECTION WITH, THE DISTRIBUTION THEREOF AND THAT THE UNDERSIGNED HAS NO PRESENT INTENTION OF DISTRIBUTING OR RESELLING SUCH SHARES, ALL EXCEPT AS IN COMPLIANCE WITH APPLICABLE SECURITIES LAWS.

27 **DELIVERY OF WARRANT ADSS**.

_____ ISSUE A CERTIFICATE OR CERTIFICATES REPRESENTING SAID WARRANT ADSS IN THE NAME OF _____ AND DELIVER SUCH CERTIFICATE OR CERTIFICATES TO _____ AT THE FOLLOWING ADDRESS:
_____
_____
_____

_____ DELIVER THE WARRANT ADSS IN UNCERTIFICATED FORM TO:
FIRM NAME AND DTC NUMBER: _____
ACCOUNT NAME AND NUMBER: _____

Date: _____ __, _____

_____
Name of Registered Holder

By: _____
Name:
Title:

EXHIBIT B

ACKNOWLEDGMENT

The Company hereby acknowledges this Exercise Notice and hereby directs The Bank of New York Mellon (the "**Depositary**") to issue the above indicated number of American Depositary Shares in accordance with the Depositary Instructions dated _____, 20__ from the Company and acknowledged and agreed to by the Depositary.

REDHILL BIOPHARMA LTD.

By: _____
Name:
Title:

Exhibit 4.18

EXECUTION COPY

SECURITIES PURCHASE AGREEMENT

This SECURITIES PURCHASE AGREEMENT (the "Agreement"), dated as of December 31, 2013, is by and among RedHill Biopharma Ltd., a company limited by shares organized under the laws of the State of Israel (the "Company"), and Broadfin Healthcare Master Fund, LTD, a corporation formed under the laws of the State of the Cayman Islands (the "Buyer").

RECITALS

A. The Company and the Buyer are executing and delivering this Agreement in a transaction exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), pursuant to Regulation D ("Regulation D") as promulgated by the United States Securities and Exchange Commission (the "SEC") thereunder.

B. The Buyer wishes to purchase from the Company, and the Company wishes to sell to the Buyer, upon the terms and conditions stated in this Agreement, 263,160 units (collectively, the "Units"), each consisting of (i) one American Depositary Share (the "Offered ADSs"), representing 10 ordinary shares, par value NIS 0.01 per share, of the Company (the "Ordinary Shares"); and (ii) a three-year warrant, in the form attached hereto as Exhibit A (the "Warrant"), to purchase 0.4 of an American Depositary Share (the "Warrant ADSs") at an exercise price of $11.00 per ADS. The Units and the Warrant ADSs are referred to herein collectively as the "Offered Securities".

AGREEMENT

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Buyer hereby agree as follows:

1 **PURCHASE AND SALE OF Units**.

(a) Purchase and Sale. Subject to the satisfaction (or waiver) of the conditions set forth in Sections 6 and 7 below, the Company shall issue (or caused to be issued) and sell to the Buyer, and the Buyer shall purchase from the Company on the Closing Date (as defined below), the Units.

(b) Closing. The closing of the purchase and sale of the Units (the "Closing") shall occur via an electronic closing in which separate counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument, will first be delivered by a facsimile or electronic mail exchange of signature pages, with originals to follow addressed to each party's counsel. The date and time of the Closing (the "Closing Date") shall be 10:00 a.m., New York time, on the first (1st) Business Day on which the conditions to the Closing set forth in Sections 6 and 7 below are satisfied or waived (or such later date as is mutually agreed to by the Company and the Buyer); provided, however, that this Agreement shall automatically terminate if the Closing shall not have been consummated within 10 calendar days following the date hereof. As used herein, unless otherwise provided, "Business Day" means any day other than a Friday, Saturday, Sunday or other day on which commercial banks in New York, New York are authorized or required by law to remain closed.

(c) Purchase Price. The aggregate purchase price for the Units to be purchased by the Buyer (the "Purchase Price") shall be $2,500,020 (or $9.50 per Unit).

(d) Closing Deliveries.

(i) On the Closing Date, the Buyer shall deliver to the Company:

(A) this Agreement, duly executed by the Buyer; and

(B) the Purchase Price for the Units to be issued and sold to the Buyer at the Closing (less the amount permitted to be withheld by the Buyer pursuant to Section 4(c)), payable in United States dollars by wire transfer of immediately available funds in accordance with the Company's written wire instructions.

(ii) On the Closing Date, the Company shall deliver to the Buyer:

(A) this Agreement, duly executed by the Company;

(B) an opinion from Haynes and Boone, LLP, United States legal counsel to the Company, in form and substance reasonably acceptable to the Buyer;

(C) an opinion from Gross, Kleinhendler, Hodak, Halevy, Greenberg & Co., Israeli legal counsel to the Company, in form and substance reasonably acceptable to the Buyer;

(D) unless the Buyer elects to receive the Offered ADSs in book-entry form, one or more American Depositary Receipts registered in the name of the Buyer, or in such nominee name(s) as designated by the Buyer in writing, evidencing the Offered ADSs;

(E) one or more certificates in the name of the Buyer, or in such nominee name(s) as designated by the Buyer in writing, representing the Warrant; and

(F) such other documents and certificates required to be delivered by the Company to the Buyer pursuant to Section 7 hereof.

2 **BUYER'S REPRESENTATIONS AND WARRANTIES**.

The Buyer represents and warrants to the Company that:

(a) Organization; Authority. The Buyer is a corporation, duly organized, validly existing and in good standing under the laws of the Cayman Islands with the requisite power and authority to execute and deliver this Agreement and the Warrant and to consummate the transactions contemplated hereby and thereby and otherwise to carry out its obligations hereunder and thereunder.

(b) Information. The Buyer and its advisors, if any, have been furnished with all materials relating to the business, finances and operations of the Company and materials relating to the offer and sale of the Offered Securities that have been requested by the Buyer. The Buyer and its advisors, if any, have been afforded the opportunity to ask questions of the Company. The Buyer understands that its investment in the Offered Securities involves a high degree of risk. The Buyer has sought such accounting, legal and tax advice as it has considered necessary to make an informed investment decision with respect to its acquisition of the Offered Securities.

(c) No Governmental Review. The Buyer understands that no Israeli, United States federal or state agency or any other government or governmental agency has passed on or made any recommendation or endorsement of the Offered Securities or the fairness or suitability of the investment in the Offered Securities nor have such authorities passed upon or endorsed the merits of the offering of the Offered Securities.

(d) Regulation D. The Buyer understands that the Offered Securities are being offered and sold to it in a transaction exempt from the registration requirements of United States federal and state securities laws in reliance on Regulation D promulgated under the Securities Act and that the Company is relying in part upon the truth and accuracy of, and the Buyer's compliance with, the representations, warranties, agreements, acknowledgments and understandings of the Buyer set forth herein in order to determine the compliance of this transaction with Regulation D and the eligibility of the Buyer to acquire the Offered Securities. In this regard, the Buyer represents and warrants that at the time it was offered the Offered Securities it was, and at the Closing it will be, an "accredited investor," as defined in Rule 501(a) under the Securities Act.

(e) Transfer or Resale. The Buyer understands that, except as provided in Section 8 hereof, the Offered Securities and the Ordinary Shares represented thereby have not been and will not be registered under the Securities Act or any state securities laws, and may not be offered for sale, sold, assigned or transferred other than (i) outside of the United States accordance with Rule 904 under the Securities Act, (ii) pursuant to an exemption from the registration requirements under the Securities Act, or (iii) pursuant to an effective registration statement under the Securities Act, in each case in compliance with all applicable state securities laws and the securities laws of any other jurisdiction applicable to such sale, assignment or transfer. The Buyer represents that it is acquiring the Offered Securities for its own account for investment purposes only and not with a view to or for distributing or selling such Offered Securities or any part thereof or any interest therein. Buyer acknowledges that no action will be taken in Israel that would permit the offering of the Offered Securities, or the distribution of any prospectus or other offering document, to the public in Israel. The Buyer will not reoffer or resell any of the Offered Securities directly or indirectly to the public in Israel without a prospectus or any exemption therefrom under the Israeli Securities Law.

(f) Validity; Enforcement. This Agreement has been duly and validly authorized, executed and delivered on behalf of the Buyer and constitutes the legal, valid and binding obligation of the Buyer enforceable against the Buyer in accordance with its terms, except as such enforceability may be limited by general principles of equity or applicable bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws relating to, or affecting generally, the enforcement of applicable creditors' rights and remedies.

(g) No Conflicts. The execution, delivery and performance by the Buyer of this Agreement and the consummation by the Buyer of the transactions contemplated hereby will not (i) result in a violation of the organizational documents of the Buyer, (ii) conflict with, or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture or instrument to which the Buyer is a party, or (iii) result in a violation of any law, rule, regulation, order, judgment or decree (including Israeli and U.S. federal and state securities laws) applicable to the Buyer, except in the case of clauses (ii) and (iii) above, for such conflicts, defaults, rights or violations which would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the ability of the Buyer to perform its obligations hereunder.

(h) Certain Trading Activities. The Buyer has not directly or indirectly, nor has any individual, limited liability company, partnership, joint venture, corporation, trust, unincorporated organization, or other entity (each, a "Person") acting on behalf of or pursuant to any understanding with the Buyer, engaged in any transactions in the securities of the Company (including, without limitation, any Short Sales (as defined below) involving the Company's securities) during the period commencing on September 10, 2013 (the date on which the Buyer was first contacted by or on behalf of the Company regarding the specific investment in the Company contemplated by this Agreement) and ending immediately prior to the execution of this Agreement by the Buyer (it being understood and agreed that for all purposes of this Agreement, and, without implication that the contrary would otherwise be true, that neither transactions nor purchases nor sales shall include the location and/or reservation of borrowable shares of Common Stock). "Short Sales" means all "short sales" as defined in Rule 200 promulgated under Regulation SHO under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

(i) Experience of the Buyer. The Buyer, either alone or together with its representatives, has such knowledge, sophistication and experience in business and financial matters so as to be capable of evaluating the merits and risks of the prospective investment in the Offered Securities, and has so evaluated the merits and risks of such investment. The Buyer is able to bear the economic risk of an investment in the Offered Securities and, at the present time, is able to afford a complete loss of such investment.

(j) General Solicitation. They Buyer is not purchasing the Offered Securities as a result of any group email or mass mailing or any advertisement, article, press release, public filing, notice, or other communication regarding the Offered Securities published on the Internet, in any newspaper, magazine or similar media or broadcast over television or radio, or presented at any seminar or any other general solicitation or general advertisement.

3 **REPRESENTATIONS AND WARRANTIES OF THE COMPANY**.

The Company represents and warrants to the Buyer that:

(a) Organization and Qualification. The Company is a corporation limited by shares duly organized and validly existing under the laws of the State of Israel, and has the requisite power and authority to own its properties and to carry on its business as described in the SEC Documents (as defined below). The Company is duly qualified to do business as a foreign entity and is in good standing in every jurisdiction in which its ownership of property or the nature of the business conducted by it makes such qualification necessary, except to the extent that the failure to be so qualified or be in good standing would not have a Material Adverse Effect. As used herein, "Material Adverse Effect" means any material adverse effect on (i) the business, properties, assets, liabilities, results of operations, financial condition or prospects of the Company or (ii) the authority or ability of the Company to perform any of its obligations under this Agreement or the Warrant. The Company does not have any Subsidiaries (as defined in Rule 1-02 of Regulation S-X promulgated by the SEC).

(b) Authorization; Enforcement; Validity. The Company has the requisite power and authority to enter into and perform its obligations under this Agreement and the Warrant and to issue the Offered Securities in accordance with the terms hereof and thereof. The execution and delivery of this Agreement and the Warrant by the Company and the consummation by the Company of the transactions contemplated hereby and thereby (including, without limitation, the issuance of the Offered ADSs, the issuance of the Warrant and the reservation for issuance and issuance of the Warrant ADSs) have been duly authorized by the Company's board of directors and, except for (i) the requirements of Section 8(a) hereof, (ii) the 6-K Filing (as defined below), (iii) the approval of the listing of the Ordinary Shares underlying the Offered ADSs on the Tel Aviv Stock Exchange (the " TASE") and (iv) the approval in principle, subject to the exercise of the Warrant, to the listing of the Ordinary Shares underlying the Warrant ADSs on the TASE ((i) through (iv), collectively, the "Required Approvals"), no further filing, consent or authorization is required by the Company, its board of directors or its stockholders or other governing body of the Company. This Agreement has been, and the Warrant will be at or prior to the Closing, duly executed and delivered by the Company, and each constitutes or, when executed and delivered will constitute, a legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as such enforceability may be limited by general principles of equity or applicable bankruptcy, insolvency, reorganization, moratorium, liquidation or similar laws relating to, or affecting generally, the enforcement of applicable creditors' rights and remedies and except as rights to indemnification and to contribution may be limited by U.S. federal or state securities law.

(c) Issuance of Securities. The Ordinary Shares represented by the Offered ADSs have been duly authorized for issuance and sale pursuant to this Agreement and, when issued and delivered by the Company pursuant to this Agreement, will be validly issued, fully paid, and non-assessable and free and clear of all liens, encumbrances, preemptive rights and other claims. The Company has reserved from its duly authorized share capital the maximum number of Ordinary Shares issuable in connection with the Offered ADSs and the Warrant ADSs (other than the Ratchet ADSs). Upon payment of the exercise price therefore pursuant to the terms of the Warrant, the Ordinary Shares represented by the Warrant ADSs will be duly authorized, validly issued, fully paid and nonassessable and free and clear of all liens, encumbrances, preemptive rights and other claims.

(d) Reporting Company; Form F-3; Trading Restrictions under Israeli Law. The Company is eligible to register the Ordinary Shares represented by the Offered ADSs, the Ratchet ADSs (if any), and the Ordinary Shares represented by the Warrant ADSs (together, the "Registrable Securities") for resale by the Buyer on a registration statement on Form F-3 under the Securities Act. The Company is subject to the reporting requirements of the Exchange Act and has filed or furnished, as applicable, all reports required thereby. To the Company's knowledge, there do not exist any facts or circumstances (including without limitation any required approvals or waivers or any circumstances that may delay or prevent the obtaining of accountant's consents) that reasonably could be expected to prohibit or delay in any material respect the preparation and filing of a Registration Statement with respect to the resale of the Registrable Securities by the Buyer required to be filed by the Company pursuant to Section 8 hereof. None of the Offered ADSs, the Warrant ADS, or the Ordinary Shares underlying the Offered ADSs and the Warrant ADSs are, or upon issuance will be, subject to any transfer restrictions under Israeli law except for restrictions on resale of such securities on the TASE pursuant to the Israeli Securities Law and the regulations promulgated thereunder.

(e) No Conflicts. The execution, delivery and performance of this Agreement and the Warrant by the Company and the consummation by the Company of the transactions contemplated hereby and thereby (including, without limitation, the issuance of the Offered ADSs, the Warrant and the Warrant ADSs and the reservation for issuance of the Warrant ADSs) will not (i) result in a violation of the Articles of Association or other organizational documents of the Company, (ii) conflict with, or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture or instrument to which the Company is a party or (iii) subject to the Required Approvals, result in a violation of any law, rule, regulation, order, judgment or decree (including, without limitation, foreign, federal and state securities laws and regulations and the rules and regulations of the NASDAQ Capital Market ("NASDAQ") and the TASE) applicable to the Company or by which any property or asset of the Company is bound or affected except, in the case of clause (ii) or (iii) above, to the extent that such violations could not reasonably be expected to have a Material Adverse Effect.

(f) Consents. The Company is not required to obtain any consent from, authorization or order of, or make any filing or registration with (other than the Required Approvals), any court, governmental agency or any regulatory or self-regulatory agency or any other Person in order for it to execute, deliver or perform any of its obligations under, or contemplated by, this Agreement or the Warrant, in each case, in accordance with the terms hereof or thereof. All consents, authorizations, orders, filings and registrations which the Company is required to obtain at or prior to the Closing have been obtained or effected on or prior to the Closing Date, and the Company is not aware of any facts or circumstances that would reasonably be expected to prevent the Company from obtaining or effecting any registration, application or filing contemplated by this Agreement.

(g) Placement Agents. Except for the engagement of Stifel, Nicolaus & Company, Incorporated ("Stifel") and Roth Capital Partners, LLC ("Roth"), whose fees will be paid by the Company in full and will not be the responsibility of the Buyer, the Company has not engaged any placement agent, broker, finder, investment banker or other agent in connection with the offer or sale of the Offered Securities, and no such other placement agent, broker, finder, investment banker or other agent will be entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of the Company.

(h) No Integrated Offering. None of the Company, any of its affiliates or, to the knowledge of the Company, any Person acting on their behalf has, directly or indirectly, made any offers or sales of any security or solicited any offers to buy any security, under circumstances that would require registration of the issuance of any of the Offered Securities under the Securities Act, whether through integration with prior offerings or otherwise, or cause this offering of the Offered Securities to require approval of stockholders of the Company under any applicable stockholder approval provisions, including, without limitation, under the rules and regulations of NASDAQ or the TASE. None of the Company, any of its affiliates or, to the knowledge of the Company, any Person acting on their behalf will take any action or steps that would require registration of the issuance of any of the Offered Securities under the Securities Act or otherwise or cause the offering of any of the Offered Securities to be integrated with other offerings of securities of the Company in such a manner as to require registration of the issuance of any of the Offered Securities under the Securities Act.

(i) No Applicable Takeover Protections. There is no control share acquisition, business combination, poison pill (including any distribution under a rights agreement) or other similar anti-takeover provision under the Articles of Association (other than provisions relating to a staggered board of directors) or the laws of Israel which is or could become applicable to the Buyer as a result of the transactions contemplated by this Agreement, including, without limitation, the Company's issuance of the Offered Securities and the Buyer's ownership of the Offered Securities.

(j) SEC Documents; Financial Statements. The Company has timely filed or furnished, as applicable, all reports, schedules, forms, statements and other documents required to be filed or furnished by it with the SEC pursuant to the reporting requirements of the Exchange Act (all of the foregoing filed or furnished prior to the date hereof and all exhibits included therein and financial statements, notes and schedules thereto and documents incorporated by reference therein being hereinafter referred to as the "SEC Documents"). The Company has delivered to the Buyer or its representatives true, correct and complete copies of each of the SEC Documents not available on the EDGAR system, if any. As of their respective dates, the SEC Documents complied in all material respects with the requirements of the Exchange Act and the rules and regulations of the SEC promulgated thereunder applicable to the SEC Documents, and none of the SEC Documents, at the time they were filed or furnished with the SEC, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. Each press release issued by the Company during the twelve (12) months preceding the date of this Agreement was furnished as an exhibit to a Report of Foreign Private Issuer on Form 6-K furnished by the Company to the SEC. As of their respective dates, the financial statements of the Company included in the SEC Documents complied in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto as in effect as of the time of filing. Such financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"), consistently applied, during the periods involved (except (i) as may be otherwise indicated in such financial statements or the notes thereto or (ii) in the case of unaudited interim statements, to the extent they may exclude footnotes or may be condensed or summary statements) and fairly present in all material respects the financial position of the Company as of the dates thereof and the results of its operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments which will not be material, either individually or in the aggregate).

(k) Independent Accountants. Kesselman & Kesselman, a member firm of PricewaterhouseCoopers International Ltd. ("Kesselman"), which has certified certain financial statements of the Company and delivered its report with respect to the audited financial statements and schedules included in the Company's Annual Report on Form 20-F for the year ended December 31, 2012 (the "Form 20-F") is an independent registered public accounting firm with respect to the Company as required by the Securities Act and the Exchange Act.

(l) Absence of Certain Changes. Since December 31, 2012, except as disclosed in the SEC Documents filed or furnished subsequent to the Form 20-F, there has been no material adverse change and no material adverse development in the business, assets, liabilities, properties, results of operations, financial condition or prospects of the Company. Since December 31, 2012, except as disclosed in the SEC Documents filed or furnished subsequent to the Form 20-F, the Company has not (i) declared or paid any dividends, (ii) sold any assets outside of the ordinary course of business or (iii) made any capital expenditures outside of the ordinary course of business. The Company has not taken any steps to seek protection pursuant to any law or statute relating to bankruptcy, insolvency, reorganization, receivership, liquidation or winding up, nor does the Company have any knowledge or reason to believe that any of their respective creditors intend to initiate involuntary bankruptcy proceedings or any actual knowledge of any fact which would reasonably lead a creditor to do so.

(m) No Undisclosed Events, Liabilities, Developments or Circumstances. To the knowledge of the Company, no event, liability, development or circumstance has occurred or exists, or is reasonably expected to occur or exist, with respect to the Company or any of its respective businesses, properties, liabilities, results of operations, financial condition or prospects that (i) would be required to be disclosed by the Company under applicable securities laws on a registration statement on Form F-1 filed with the SEC relating to an issuance and sale by the Company of any of its securities and which has not been publicly announced, (ii) could have a material adverse effect on the Buyer's investment hereunder or (iii) could reasonably be expected to have a Material Adverse Effect, in each case except as disclosed by the Company to the Buyer in writing on the date hereof (the information so disclosed being referred to herein, collectively, as the "MNPI").

(n) Conduct of Business; Regulatory Permits. The Company is not in violation of any term of or in default under its Articles of Association. The Company is not in violation of any judgment, decree or order or any statute, ordinance, rule or regulation applicable to the Company, and the Company will not conduct its business in violation of any of the foregoing, except in all cases for possible violations which would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Without limiting the generality of the foregoing, the Company is not in material violation of any of the rules, regulations or requirements of NASDAQ or the TASE and has no knowledge of any facts or circumstances that would reasonably be expected to lead to delisting or suspension of the ADSs or the Ordinary Shares, respectively, by NASDAQ or the TASE in the foreseeable future. Since being listed on NASDAQ or the TASE, as applicable, (i) trading in the ADSs and the Ordinary Shares, respectively, has not been suspended by the SEC, the Israeli Securities Authority (the "ISA"), NASDAQ or the TASE and (ii) the Company has not received any communication, written or oral, from the SEC, the ISA, NASDAQ or the TASE regarding the suspension or termination of the listing of the ADSs or the Ordinary Shares, respectively, on NASDAQ or the TASE. The Company possesses all certificates, authorizations and permits issued by the appropriate regulatory authorities necessary to conduct its businesses, except where the failure to possess such certificates, authorizations or permits would not and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect, and the Company has not received any notice of proceedings relating to the revocation or modification of any such certificate, authorization or permit.

(o) Foreign Corrupt Practices. None of the Company or, to the knowledge of the Company, any director, officer, agent, employee or affiliate of the Company is currently subject to any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury ("OFAC"), and the Company will not directly or indirectly use the proceeds of the offering of the Offered Securities hereunder, or lend, contribute or otherwise make available such proceeds to any joint venture partner or other person or entity for the purpose of financing the activities of any person that, to the Company's knowledge, is currently subject to any U.S. sanctions administered by OFAC.

(p) Sarbanes-Oxley Act. The Company is in material compliance with all requirements of the Sarbanes-Oxley Act of 2002 and all rules and regulations promulgated by the SEC thereunder which in any such case are applicable to the Company.

(q) Transactions With Affiliates. Except as disclosed in the SEC Documents, none of the officers, directors, employees or affiliates of the Company is presently a party to any transaction with the Company (other than for ordinary course services as employees, officers or directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any such officer, director, employee or affiliate or, to the knowledge of the Company, any corporation, partnership, trust or other Person in which any such officer, director, employee or affiliate has a substantial interest or is an employee, officer, director, trustee or partner.

(r) Equity Capitalization. The authorized, issued, and outstanding share capital of the Company is as set forth in the SEC Documents (other than for subsequent issuances, if any, pursuant to employee benefit plans described in the Form 20-F or upon exercise of outstanding options or warrants described therein). The Ordinary Shares and the ADSs conform in all material respects to the description thereof contained in the Form 20-F. All of the issued and outstanding Ordinary Shares have been duly authorized and validly issued, are fully paid and non-assessable and have been issued in compliance with applicable Israeli and U.S. federal and state securities laws. None of the outstanding Ordinary Shares were issued in violation of any preemptive rights, rights of first refusal, or other similar rights to subscribe for or purchase securities of the Company. The description of the Company's stock option, stock bonus, and other stock plans or arrangements, and the options or other rights granted thereunder, set forth in the Form 20-F accurately and fairly presents in all material respects the information required to be shown with respect to such plans, arrangements, options, and rights. None of the Company's capital stock is subject to preemptive rights or any other similar rights or any liens or encumbrances suffered or permitted by the Company. Except as disclosed in the SEC Documents (including, for the avoidance of doubt, any quarterly financial statements furnished by the Company as an exhibit to a Report of Foreign Private Issuer on Form 6-K), (i) there are no outstanding options, warrants, scrip, rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities or rights convertible into, or exercisable or exchangeable for, any capital stock of the Company, or contracts, commitments, understandings or arrangements by which the Company is or may become bound to issue additional capital stock of the Company; (ii) there are no outstanding debt securities, notes, credit agreements, credit facilities or other agreements, documents or instruments evidencing Indebtedness (as defined below) of the Company or by which the Company is or may become bound; (iii) there are no financing statements securing obligations in any amounts filed in connection with the Company; (iv) there are no agreements or arrangements under which the Company is obligated to register the sale of any of its securities under the Securities Act (except as set forth in Section 8(a) of this Agreement); (vi) there are no outstanding securities or instruments of the Company which contain any redemption or similar provisions, and there are no contracts, commitments, understandings or arrangements by which the Company is or may become bound to redeem a security of the Company. There are no securities or instruments containing anti-dilution or similar provisions that will be triggered by the issuance of the Offered Securities. The Company does not have any stock appreciation rights or "phantom stock" plans or agreements or any similar plan or agreement.

(s) Indebtedness and Other Contracts. The Company does not have any outstanding Indebtedness and is not a party to any contract, agreement or instrument relating to any Indebtedness. "Indebtedness" means (i) any liabilities for borrowed money or amounts owed (other than trade accounts payable incurred in the ordinary course of business), (ii) all guaranties, endorsements and other contingent obligations in respect of indebtedness of others, whether or not the same are or should be reflected in the Company's balance sheet (or the notes thereto), except guaranties by endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business, and (iii) the present value of any lease payments due under leases required to be capitalized in accordance with IFRS.

(t) Contracts. The Company has filed with or furnished to the SEC all contracts and agreements required to be filed or furnished under the Exchange Act. The Company is not in default under or in violation of (and no event has occurred that has not been waived that, with notice or lapse of time or both, would result in a default by the Company under), nor has the Company received notice of a claim that it is in default under or that it is in violation of, any indenture, loan or credit agreement or any other agreement or instrument to which it is a party or by which it or any of its properties is bound (whether or not such default or violation has been waived), except for such defaults or violations which would not reasonably be expected to have a Material Adverse Effect.

(u) Absence of Litigation. Except as disclosed in the SEC Documents, there is no action, suit or proceeding or, to the knowledge of the Company, any inquiry or investigation before or by NASDAQ, the TASE, any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the Company, threatened against or affecting the Company, the Ordinary Shares, the ADSs, or any of the Company's executive officers or directors. There has not been, and to the knowledge of the Company, there is not pending or contemplated, any investigation by the SEC or the ISA involving the Company or any current or former director or executive officer of the Company. The SEC has not issued any stop order or other order suspending the effectiveness of any registration statement filed by the Company under the Securities Act or the Exchange Act.

(v) Insurance. The Company is insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as management of the Company believes to be prudent and customary in the businesses in which the Company is engaged. The Company has not been refused any insurance coverage sought or applied for, and the Company does not have any reason to believe that it will be unable to renew its existing insurance coverage as and when such coverage expires or to obtain coverage from another internationally recognized insurance provider of similar standing as may be necessary to continue its business at a cost that would not have a Material Adverse Effect.

(w) Employee Relations. Except as disclosed in the SEC Documents, the Company is not a party to, and none of its employees are subject to, any collective bargaining agreement. The Company believes that its relations with its employees are good. No executive officer (as defined in Rule 501(f) promulgated under the Securities Act) or other key employee of the Company has notified the Company that such officer intends to leave the Company or otherwise terminate such officer's employment with the Company. To the knowledge of the Company, no executive officer or other key employee of the Company is, or is now expected to be, in violation of any material term of any employment contract, confidentiality, disclosure or proprietary information agreement, non-competition agreement, or any other contract or agreement or any restrictive covenant, and the continued employment of each such executive officer or other key employee (as the case may be) does not subject the Company to any liability with respect to any of the foregoing matters. The Company is in compliance with all federal, state, local and foreign laws and regulations respecting labor, employment and employment practices and benefits, terms and conditions of employment and wages and hours, except where failure to be in compliance would not, either individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect.

(x) Title. The Company has good and marketable title to all personal property owned by it which is material to the business of the Company, in each case, free and clear of all liens, encumbrances and defects except for those that do not materially affect the value of such property and do not materially interfere with the use made and proposed to be made of such property by the Company. Any real property and facilities held under lease by the Company are held by them under valid, subsisting and enforceable leases with such exceptions as are not material and do not materially interfere with the use made and proposed to be made of such property and buildings by the Company.

(y) Intellectual Property Rights. To the knowledge of the Company, except as set forth in the Report of Foreign Private Issuer on Form 6-K furnished by the Company to the SEC on July 22, 2013, the Company owns or possesses adequate rights or licenses to use all trademarks, trade names, service marks, service mark registrations, service names, patents, patent rights, copyrights, original works, inventions, licenses, approvals, governmental authorizations, trade secrets and other intellectual property rights and all applications and registrations therefor ("Intellectual Property Rights") necessary to conduct its business as described in the SEC Documents. None of the Company's material Intellectual Property Rights have expired, terminated or been abandoned, or are expected to expire, terminate or be abandoned, within two (2) years from the date of this Agreement. The Company has no knowledge of any infringement by the Company of Intellectual Property Rights of others. No written claim or any action or proceeding has been made or brought, or to the knowledge of the Company, threatened, against the Company regarding its Intellectual Property Rights. Except as set forth in the Report of Foreign Private Issuer on Form 6-K furnished by the Company to the SEC on July 22, 2013, the Company is not aware of any facts or circumstances which would form a reasonable basis for any of the foregoing infringements or claims, actions or proceedings. The Company has taken reasonable security measures to protect the secrecy, confidentiality and value of all of its Intellectual Property Rights, except where failure to take such measures would not, either individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect.

(z) Environmental Laws. The Company (i) is in compliance with all Environmental Laws (as defined below), (ii) has received all permits, licenses or other approvals required of it under applicable Environmental Laws to conduct its business and (iii) is in compliance with all terms and conditions of any such permit, license or approval where, in each of the foregoing clauses (i), (ii) and (iii), the failure to so comply could be reasonably expected to have, individually or in the aggregate, a Material Adverse Effect. "Environmental Laws" means all Israeli, federal, state, local or foreign laws relating to pollution or protection of human health or the environment (including, without limitation, ambient air, surface water, groundwater, land surface or subsurface strata), including, without limitation, laws relating to emissions, discharges, releases or threatened releases of chemicals, pollutants, contaminants, or toxic or hazardous substances or wastes (collectively, "Hazardous Materials") into the environment, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials, as well as all authorizations, codes, decrees, demands or demand letters, injunctions, judgments, licenses, notices or notice letters, orders, permits, plans or regulations issued, entered, promulgated or approved thereunder.

(aa) Tax Status. The Company (i) has made or filed all material Israeli, federal, state and foreign income and all other tax returns, reports and declarations required by any jurisdiction to which it is subject, (ii) has paid all taxes and other governmental assessments and charges that are material in amount, shown or determined to be due on such returns, reports and declarations, except those being contested in good faith, and (iii) has set aside on its books provision reasonably adequate for the payment of all taxes for periods subsequent to the periods to which such returns, reports or declarations apply. The Company is not aware of any tax deficiency that has been or would reasonably be expected to be asserted against the Company, in each case that would reasonably be expected to have a Material Adverse Effect.

(bb) Internal Accounting and Disclosure Controls. The Company maintains internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) that is effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS, including that (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with IFRS and to maintain asset and liability accountability, (iii) access to assets or incurrence of liabilities is permitted only in accordance with management's general or specific authorization and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any difference. The Company maintains disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Exchange Act) that are effective in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, including, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive officer or officers and its principal financial officer or officers, as appropriate, to allow timely decisions regarding required disclosure. The Company has not received any notice or correspondence from any accountant or other Person relating to any potential material weakness or significant deficiency in any part of the internal controls over financial reporting of the Company that has not been cured or otherwise resolved prior to the date hereof.

(cc) Off Balance Sheet Arrangements. There is no transaction, arrangement, or other relationship between the Company and an unconsolidated or other off balance sheet entity that is required to be disclosed by the Company in its Exchange Act filings and is not so disclosed or that otherwise could be reasonably likely to have a Material Adverse Effect.

(dd) Investment Company Status. The Company is not, and upon consummation of the sale of the Offered Securities will not be, an "investment company," an affiliate of an "investment company," a company controlled by an "investment company" or an "affiliated person" of, or "promoter" or "principal underwriter" for, an "investment company" as such terms are defined in the Investment Company Act of 1940, as amended.

(ee) Acknowledgement Regarding Buyer's Trading Activity. It is understood and acknowledged by the Company that, following the public disclosure of the transactions contemplated by this Agreement in accordance with the terms hereof, the Buyer has not been asked by the Company to agree, nor has the Buyer agreed with the Company to desist from effecting any transactions in or with respect to (including, without limitation, purchasing or selling, long and/or short) any securities of the Company, or "derivative" securities based on securities issued by the Company or to hold any of the Offered Securities for any specified term. The Company further understands and acknowledges that following the public disclosure of the transactions contemplated by this Agreement pursuant to the Press Release (as defined below) and subject to applicable law the Buyer may engage in hedging and/or trading activities at various times during the period that the Offered Securities are outstanding and the Company acknowledges that such aforementioned hedging and/or trading activities do not constitute a breach of this Agreement or the Warrant.

(ff) Manipulation of Price. The Company has not taken and will not take, directly or indirectly, any action which constitutes, was designed to, or that would reasonably be expected to cause or result in, stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Offered Securities. The Company will take reasonable best efforts to cause its officers and directors not to take, directly or indirectly, any action which is designed to or which has constituted or which would be expected to cause or result in stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Offered Securities.

(gg) Transfer Taxes. There are no transfer taxes or other similar fees or charges under Israeli law, U.S. federal law or the laws of any state, or any political subdivision thereof, required to be paid in connection with the execution and delivery of this Agreement or the issuance or sale by the Company of the Offered Securities.

(hh) No Adjustment to Other Securities. The issuance and sale of the Offered Securities hereunder will not obligate the Company to issue ADSs, Warrants, Ordinary Shares or other securities to any other person (other than the Buyer) and will not result in the adjustment of the exercise, conversion, exchange or reset price of any outstanding securities.

(jj) Shell Company Status. The Company is not, and has never been, an issuer identified in, or subject to, Rule 144(i) under the Securities Act.

(kk) Illegal or Unauthorized Payments; Political Contributions. None of the Company or, to the Company's knowledge (after reasonable inquiry of its executive officers and directors), any of its officers, directors, employees, agents or other representatives or any other business entity or enterprise with which the Company is or has been affiliated or associated, has, directly or indirectly, made or authorized any payment, contribution or gift of money, property, or services, whether or not in contravention of applicable law (i) as a kickback or bribe to any Person or governmental authority, agency or representative or (ii) to any political organization, or the holder of or any aspirant to any elective or appointive public office except for personal political contributions not involving the direct or indirect use of funds of the Company.

(ll) Disclosure. The Company confirms that, except for (i) the existence of the transactions contemplated by this Agreement and the Warrant and (ii) the MNPI, neither it nor any other Person acting on its behalf has provided the Buyer or its agents or counsel with any information that constitutes or could reasonably be expected to constitute material, non-public information concerning the Company. The Company understands and confirms that the Buyer will rely on the foregoing representations in effecting transactions in securities of the Company. All disclosure provided to the Buyer regarding the Company, its business and the transactions contemplated hereby furnished by or on behalf of the Company is true and correct in all material respects and does not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading. No event or circumstance has occurred or information exists with respect to the Company or its business, properties, liabilities, results of operations, financial condition or prospects, which, under applicable law, rule or regulation, requires public disclosure at or before the date hereof or announcement by the Company but which has not been so publicly disclosed. The Company acknowledges and agrees that Buyer does not make and has not made any representations or warranties with respect to the transactions contemplated hereby other than those specifically set forth in Section 2.

4 **COVENANTS**.

(a) Reporting Status. For a period of four years from the Closing or, if earlier, until the date on which the Buyer shall have sold all of the Registrable Securities or the Registrable Securities are no longer outstanding (the "Reporting Period"), the Company shall timely file or furnish, as applicable, all reports required to be filed or furnished with the SEC pursuant to the Exchange Act, and the Company shall not terminate its status as an issuer required to file reports under the Exchange Act even if the Exchange Act or the rules and regulations thereunder would no longer require or otherwise permit such termination.

(b) Use of Proceeds. The Company shall use the proceeds from the sale of the Offered Securities hereunder solely for the continuation of its existing and planned research and development activities, including the clinical trials described in the SEC Documents, the acquisition of new drug candidates and related technologies or products, and other general working capital and research and development purposes. Without limiting the foregoing, none of such proceeds shall be used, directly or indirectly, (i) for the satisfaction of any debt of the Company (other than payment of trade payables incurred after the date hereof in the ordinary course of business of the Company and consistent with prior practices), (ii) for the redemption of any securities of the Company or (iii) with respect to any litigation involving the Company (including, without limitation, (A) the settlement thereof or (B) the payment of any costs or expenses related thereto).

(c) Fees. The Company shall reimburse the Buyer for all costs and expenses incurred by it or its affiliates in connection with the transactions contemplated by this Agreement (including, without limitation, all accounting and legal fees and disbursements in connection therewith, structuring, documentation and implementation of the transactions contemplated by this agreement and the Warrant and due diligence and regulatory filings in connection herewith and therewith), which amount may be withheld by the Buyer from its purchase price at the Closing, provided that the Company's obligation to so reimburse the Buyer for such costs and expenses shall be limited to $5,000 if the Closing occurs by January 11, 2013. The Company shall be responsible for the payment of any placement agent's fees, financial advisory fees, or broker's commissions (other than for Persons engaged by the Buyer) relating to or arising out of the transactions contemplated hereby, including without limitation any fees payable to Stifel and/or Roth in connection therewith. The Company shall pay, and hold the Buyer harmless against, any liability, loss or expense (including, without limitation, reasonable attorneys' fees and out-of-pocket expenses) arising in connection with any claim relating to any such payment. Except as otherwise set forth herein, each party to this Agreement shall bear its own expenses in connection with the sale of the Offered Securities to the Buyer.

(d) Disclosure of Transactions and Other Material Information. The Company shall on or before 9:30 a.m., New York time, on the first (1st) Business Day immediately following the date of this Agreement: (i) issue a press release (the "Press Release") reasonably acceptable to the Buyer disclosing all the material terms of the transactions contemplated by this Agreement, including the name of the Buyer, and (ii) furnish a Report of Foreign Private Issuer on Form 6- K, complying as to form and substance with the requirements of the Exchange Act, that includes the Press Release as an exhibit thereto (including such exhibit, the "6-K Filing"). All MNPI shall be disclosed by the Company, on or prior to the seventy-fifth (75^{th}) calendar day following the Closing (the "Disclosure Deadline"), in a manner sufficient to ensure that, effective upon the making of such disclosure, the MNPI shall not constitute "material non-public information" under applicable U.S. securities laws (and SEC staff and judicial interpretations thereof); provided, however, that such requirement shall not apply if, prior to the Disclosure Deadline, the Company delivers to the Buyer a certificate (the "MNPI Certificate"), duly executed by the Chief Executive Officer of the Buyer, stating that the MNPI no longer constitutes "material non-public information" under applicable U.S. securities laws (and SEC staff and judicial interpretations thereof). In the event that the Company fails to disclose such MNPI or deliver an MNPI Certificate to the Buyer on or prior to the Disclosure Deadline, the Buyer shall be permitted to publicly disclose the MNPI in a manner sufficient to ensure that, effective upon the making of such disclosure, such MNPI shall not constitute "material non-public information" under applicable U.S. securities laws (and SEC staff and judicial interpretations thereof). The Company shall use its reasonable best efforts to deliver an MNPI Certificate to the Buyer promptly, and in any event no later than two (2) Business Days, following the date on which the Company first determines in good faith that the MNPI no longer constitutes "material non-public information" under applicable U.S. securities laws (and SEC staff and judicial interpretations thereof). The Company shall not, and the Company shall cause each of its officers, directors, employees and agents, not to, provide the Buyer with any material, non-public information regarding the Company from and after the Closing without the express prior written consent of the Buyer (which may be granted or withheld in the Buyer's sole discretion). Subject to the foregoing, neither the Company nor the Buyer shall issue any press releases or any other public statements with respect to the transactions contemplated hereby; provided, however, the Company shall be entitled, without the prior approval of the Buyer, to issue the Press Release and any other press release or make other public disclosure with respect to such transactions (i) in substantial conformity with the 6-K Filing and (ii) as is required by applicable law and regulations (provided that in the case of clause (i) the Buyer shall be consulted by the Company in connection with any such press release or other public disclosure prior to its release).

(e) Reservation of Shares. So long as any of the Warrant remains outstanding, the Company shall take all action necessary to at all times have authorized, and reserved for the purpose of issuance, no less than the maximum number of Ordinary Shares to be represented by the Warrant ADSs issuable upon exercise of the Warrant.

(f) Price Protection. From the date hereof through the date on which the Company has sold to bona fide third parties (which shall include sales to officers, directors and shareholders of the Company that are approved by the board of directors, including a majority of the disinterested directors) from and after the date of this Agreement Additional Securities (as defined below) resulting in aggregate gross proceeds to the Company of $25,500,000, if the Company issues any Additional Securities at a price per such Additional Security lower than the purchase price per Unit hereunder (i.e., $9.50) (such lower price, the "Subsequent Offering Price"), upon each such issuance the Company shall promptly cause to be issued and delivered to the Buyer such additional ADSs ("Ratchet ADSs") equal to the excess of (A) the quotient of 2,500,020 divided by the Subsequent Offering Price (calculated, in the event of any security convertible into or exercisable for ADSs or Ordinary Shares, based on the conversion or exercise price per share and, in the case of an offering of Ordinary Shares or any security convertible into or exercisable for Ordinary Shares, multiplied by 10 (or, in the case one ADS represents some other number of Ordinary Shares, multiplied by such other number)) minus (B) the sum of 263,160 and the number of Ratchet ADSs, if any, issued pursuant to this Agreement prior to issuance of such additional Ratchet ADSs. As used herein (and except as provided in the next succeeding sentence), "Additional Securities" means Ordinary Shares, any other capital stock of the Company, ADSs, or any evidences of indebtedness or other securities representing or directly or indirectly convertible into or exchangeable for capital stock of the Company; provided, however, that if Ordinary Shares and/or ADSs are offered as units together with any other rights (whether warrants, other securities representing or directly or indirectly convertible into or exchangeable for share capital of the Company, or other rights), the "Subsequent Offering Price" shall be the price paid for each "unit" in such offering, which unit shall be comprised of (i) one Ordinary Share and or ADS, as the case may be, plus (ii) a number of such other rights as is equal to (x) the aggregate number of such other rights offered in such transaction divided by (y) the aggregate number of Ordinary Share or ADSs, as the case may be, offered in such transaction. "Additional Securities" shall not include: (i) the Offered Securities; (ii) stock options, Ordinary Shares and other stock awards issued to employees or directors of, or consultants or advisors to, the Company pursuant to its 2010 Stock Option Plan, as in effect on the date hereof and described in the SEC Documents or pursuant to any other stock option plan, agreement or arrangement approved by the Company's board of directors; (iii) Ordinary Shares actually issued upon the exercise of options or warrants outstanding on the date hereof, in each case provided such issuance is pursuant to the terms of such option or warrant; and (iv) Ordinary Shares issued by the Company as consideration for the acquisition of all of the equity securities and voting rights, or all or substantially all of the assets, of any Person or other reorganization or joint venture, in each case in a transaction approved by the board of directors of the Company and, if required under applicable law or stock exchange regulations, the Company's stockholders; (v) Ordinary Shares or ADSs issued by reason of a dividend, stock split, split-up or other distribution on ordinary shares; or (vi) Ordinary Shares, ADSs, options or other securities convertible into, or exercisable for, Ordinary Shares or ADSs issued (a) in connection with the acquisition of, or licensing arrangements for, pharmaceutical products, (b) to suppliers or third party service providers in connection with the provision of goods or services or (c) in connection with sponsored research, collaboration, technology license, development, OEM, marketing or other similar agreements or strategic partnerships, in each case pursuant to transactions approved by the Board of Directors of the Company and not in connection with a capital raising transaction (any securities issued as described in clauses (i) through (vi), collectively, "Excluded Securities"). For the avoidance of doubt, Excluded Securities (and the proceeds from the issuance thereof) shall not be included in the calculation of the aggregate gross proceeds to the Company from sales of Additional Securities for purposes of this Section 4(f). Notwithstanding anything to the contrary herein, in the event of an issuance of Ratchet ADSs to the Buyer, such issuance and the price for each Ratchet ADS shall be subject to the receipt of all approvals required under the applicable law, including but not limited to the Israeli Securities Law and the regulations promulgated thereunder, and subject to the TASE rules and guidelines, as may be amended from time to time; provided that the Company shall use its reasonable best efforts to obtain all necessary approvals as promptly as possible following the closing of a sale of Additional Securities resulting in an obligation of the Company to issue Ratchet ADSs hereunder and, provided further, that in no event shall the Company be excused from its obligations hereunder to issue Ratchet ADSs if required pursuant to this Section 4(f); except as otherwise provided by applicable law, including TASE rules and guidelines as they may be amended from time to time.

5 **LEGEND**.

(a) Legend. Until such time as determined in accordance with paragraph (b) below, any certificates evidencing the Registrable Securities will bear a restrictive legend in substantially the following form (and a stop-transfer order may be placed against transfer of such Registrable Securities):

THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEENREGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED ("THE SECURITIES ACT"). THESE SECURITIES[, AND THE SECURITIES INTO WHICH THEY ARE EXERCISABLE,] MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (2) PURSUANT TO AN AVAILABLE EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT, AS CONFIRMED BY AN OPINION OF UNITED STATES COUNSEL THAT IS SATISFACTORY TO THE COMPANY, OR (3) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE STATE SECURITIES LAWS AND THE SECURITIES LAWS OF OTHER JURISDICTIONS. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES.

(b) Removal of Legends. The Company shall cause the restrictive legend set forth in Section 5(a) to be removed from the Registrable Securities and any ADSs representing the Registrable Securities if those securities are (i) resold outside the United States in accordance with Regulation S, (ii) resold in accordance with Rule 144 or another available exemption under the Securities Act following which such securities will not constitute restricted securities or control securities in the hands of the purchaser or transferee thereof, as confirmed by an opinion of United States counsel that is satisfactory to the Company, or (iii) resold in reliance on an effective registration statement under the Securities Act. In connection with a resale of Registrable Securities or ADSs representing Registrable Securities in reliance on an effective registration statement under the Securities Act, the Company will confirm, if applicable, that the registration statement was effective and could be relied upon for resale of securities as of the applicable date of sale and that the specified seller was listed as a selling shareholder in the prospectus included in such registration statement. If at any time a legend is not required pursuant to this paragraph (b), upon request of the Buyer the Company shall cause The Bank of New York Mellon, as depositary (together with its successors and assigns, the "Depositary"), to promptly, but no later than three (3) Business Days (including Fridays) following the delivery by the Buyer to the Depository (with notice to the Company) of restricted ADSs or Warrant ADSs (together with such customary opinions and documents required by the Depositary, and a proper instruction or instrument of transfer duly executed and bearing a Medallion signature guarantee), at the request of the Buyer, either (A) issue and deliver (or cause to be delivered) to the Buyer a certificate representing the ADSs or Warrant ADSs so delivered to the Depositary by the Buyer, free from all restrictive and other legends, or (B) credit the aggregate number of ADSs or Warrant ADSs represented by the restricted certificates so delivered to the Buyer's or its designee's balance account with the Depository Trust Company ("DTC") through its Deposit/Withdrawal at Custodian system (the date by which such credit is so required to be made to the balance account of Buyer or Buyer's nominee with DTC or such certificate is required to be delivered to the Buyer pursuant to the foregoing is referred to herein as the "Required Delivery Date").

(c) Failure to Timely Deliver; Buy-In. If the Depositary fails to (i) issue and deliver (or cause to be delivered) to the Buyer by the Required Delivery Date a certificate representing ADSs or Warrant ADSs so delivered to the Depositary by the Buyer that is free from all restrictive and other legends or (ii) credit the balance account of the Buyer's or the Buyer's nominee with DTC for such number of ADSs or Warrant ADSs so delivered to the Company (other than, in the case of this clause (ii), due to the failure of the Buyer's broker to initial the FAST process), and on or after the Required Delivery Date the Buyer (or any other Person in respect, or on behalf, of the Buyer) purchases (in an open market transaction or otherwise) ADSs or Ordinary Shares to deliver in satisfaction of a sale by the Buyer to a non-affiliate of all or any portion of the number of ADSs or Ordinary Shares that the Buyer so anticipated receiving from the Company without any restrictive legend, then, in addition to all other remedies available to the Buyer, the Company shall, within three (3) Business Days (including Fridays) after the Buyer's request, promptly honor its obligation to cause the Depositary to so deliver to the Buyer a certificate or certificates or credit the Buyer's DTC account representing such number of ADSs or Ordinary Shares representing ADSs that would have been so delivered if the Company timely complied with its obligations hereunder (as the case may be) and pay cash to the Buyer in an amount equal to the excess (if any) of the amount equal to the Buyer's total purchase price (including brokerage commissions and other out-of-pocket expenses, if any) for the ADSs or Ordinary Shares so purchased over the product of (1) such number of ADSs or Ordinary Shares and (2) the price at which the sell order giving rise to Buyer's purchase obligation was executed.

6 **CONDITIONS TO THE COMPANY'S OBLIGATION TO SELL**. The obligation of the Company hereunder to issue and sell the Units to the Buyer at the Closing is subject to the satisfaction, at or before the Closing Date, of each of the following conditions, provided that these conditions are for the Company's sole benefit and may be waived by the Company at any time in its sole discretion by providing the Buyer with prior written notice thereof:

(a) the Buyer shall have delivered to the Company those documents and other items required to be delivered by it pursuant to Section 1(d)(i); and

(b) the representations and warranties of the Buyer shall be true and correct in all material respects as of the date when made and as of the Closing Date as though originally made at that time (except for representations and warranties that speak as of a specific date, which shall be true and correct in all material respects as of such date, and that any representation and warranty qualified by materiality or Material Adverse Effect shall be true and correct in all respects), and the Buyer shall have performed, satisfied and complied in all material respects with the covenants, agreements and conditions required by this Agreement to be performed, satisfied or complied with by the Buyer at or prior to the Closing Date.

7 **CONDITIONS TO THE BUYER'S OBLIGATION TO PURCHASE**. The obligation of the Buyer hereunder to purchase the Units at the Closing is subject to the satisfaction, at or before the Closing Date, of each of the following conditions, provided that these conditions are for the Buyer's sole benefit and may be waived by the Buyer at any time in its sole discretion by providing the Company with prior written notice thereof:

(a) the Company shall have delivered to the Buyer those documents and other items required to be delivered by it pursuant to Section 1(d)(ii);

(b) the representations and warranties of the Company shall be true and correct in all material respects as of the date when made and as of the Closing Date as though originally made at that time (except for representations and warranties that speak as of a specific date, which shall be true and correct in all material respects as of such date, and that any representation and warranty qualified by materiality or Material Adverse Effect shall be true and correct in all respects) and the Company shall have performed, satisfied and complied in all material respects with the covenants, agreements and conditions required by this Agreement to be performed, satisfied or complied with by the Company at or prior to the Closing Date;

(c) the Buyer shall have received a certificate, executed by the Chief Executive Officer of the Company and dated as of the Closing Date, certifying as to the matters set forth in Section 7(b); and

(d) the Company shall have delivered to the Buyer evidence, in form and substance reasonably satisfactory to the Buyer, that each of the Required Approvals was received as of the Closing;

(e) the ADSs shall be duly listed, and admitted and authorized for trading, on the NASDAQ Capital Market (subject to official notice of issuance, if required);

(f) the Ordinary Shares represented by the ADSs and underlying the Warrant ADSs shall have been approved for listing on the TASE (subject to official notice of issuance); and

(g) none of the listing of the ADSs the NASDAQ Capital Market or the listing of the Ordinary Shares on the Tel Aviv Stock Exchange shall have been suspended as of the Closing Date, nor shall suspension thereof have been threatened as of the Closing Date.

8 **REGISTRATION OF THE REGISTRABLE SECURITIES**.

(a) Registration Procedures and Expenses.

(i) The Company shall:

(A) as soon as practicable, but in no event later than thirty (30) days following the Closing Date (the "Filing Deadline"), prepare and file with the Commission a registration statement on Form F-3 (or, if the Company is not then eligible to register the Registrable Securities for resale on Form F-3, on another appropriate form in accordance with the Securities Act and the Exchange Act), to enable the resale of the Registrable Securities by the Buyer in an offering to be made on a continuous basis pursuant to Rule 415 under the Securities Act (such registration statement being referred to herein as the "Initial Registration Statement" and each registration statement required to be filed under this Section 8 being referred to herein as a "Registration Statement"); provided, however, that the Buyer shall not be named as an "underwriter" in the Registration Statement without the Buyer's prior written consent;

(B) use its reasonable best efforts, subject to receipt of necessary information from the Buyer, to cause the SEC to declare the Initial Registration Statement effective as promptly as practicable, but in any event no later than the earlier of (I) the fifth (5th) day after the Company receives notice from the SEC that such Registration Statement will not become subject to review, or (II) the ninetieth (90th) day after the filing thereof or if later the one hundred and twentieth (120th) day after the Closing Date (as applicable, the "Effective Deadline");

(C) use its reasonable best efforts to prepare and file with the SEC such amendments and supplements to a Registration Statement in compliance with applicable laws, any prospectus used in connection therewith (each, a "Prospectus") and any document incorporated by reference therein as may be necessary to keep such Registration Statement current, effective and free from any material misstatement or omission to state a material fact until the earliest of (I) twelve months after the effective date of the Registration Statement and (II) such time as all Offered ADSs and all Warrant ADSs issuable pursuant to the Warrant and, in each case, covered by the Registration Statement, may be sold without volume limitations pursuant to Rule 144 (the "Effectiveness Period");

(D) furnish to the Buyer with respect to the Registrable Securities registered under the Registration Statement (and to each underwriter, if any, of such Registrable Securities) such number of copies of the Registration Statement, Prospectuses and Preliminary Prospectuses in conformity with the requirements of the Securities Act and such other documents as the Buyer (or underwriter, as applicable) may reasonably request in order to facilitate the public sale or other disposition of all or any of the Registrable Securities;

(E) file documents required of the Company for normal blue sky clearance in states specified in writing by the Buyer and use its commercially reasonable efforts to maintain such blue sky qualifications during the Effectiveness Period; provided, however, that the Company shall not be required to qualify to do business or consent to service of process in any jurisdiction in which it is not now so qualified or has not so consented or subject the Company to any material tax (excluding, for the avoidance of doubt, any filing fees required in connection with such filing) in any such jurisdiction where it is not then so subject;

(F) immediately notify the Buyer, at any time prior to the end of the Effectiveness Period, upon discovery that, or upon the happening of any event as a result of which, the Registration Statement includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing, and promptly prepare, file with the SEC and furnish to such holder an amendment of such Registration Statement as may be necessary so that such Registration Statement shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing;

(G) advise the Buyer, promptly after it shall receive notice or obtain knowledge of the issuance of any stop order by the SEC delaying or suspending the effectiveness of a Registration Statement or of the initiation or threat of any proceeding for that purpose; and, subject to Section 8(a)(iii), promptly use its reasonable best efforts to prevent the issuance of any stop order or to obtain its withdrawal at the earliest possible moment if such stop order should be issued;

(H) bear all expenses in connection with the procedures in clauses (A) through (G) of this Section 8(a)(i), the procedures in Section 8(a)(iv) and the registration of the Registrable Securities pursuant to the Registration Statement, including any expenses incurred with respect to the duties of the Depositary pursuant to this Agreement (other than underwriting discounts or commissions, brokers' fees and similar selling expenses and any other fees or expenses incurred by the Buyer, including attorneys' fees);

(I) promptly following the date on which any Registration Statement is declared effective by the SEC, file with the SEC in accordance with Rule 424 under the Securities Act, if required thereunder, the final prospectus to be used in connection with sales pursuant to such Registration Statement; and

(J) at least two (2) Business Days prior to the filing of each Registration Statement, provide a "Plan of Distribution" and "Selling Stockholders" section of such Registration Statement to the Buyer for the Buyer's review and comment which, at a minimum, states that the selling stockholders may transfer the shares of common stock in various circumstances, including circumstances in which the transferees, pledgees or other successors in interest may be the selling beneficial owners for purposes of the Prospectus, and make all changes and modifications thereto reasonably requested by the Buyer.

(ii) Notwithstanding anything to the contrary herein, from the date hereof until the effective date of one or more Registration Statements covering all of the Registrable Securities, the Company shall not, without the prior written consent of the Buyer, prepare and file with the SEC a registration statement (or prospectus filed pursuant to an effective "shelf" registration statement) relating to an offering for its own account or the account of others under the Securities Act of any of its equity securities; provided however that, subject to the restrictions contained herein, the Registration Statement covering the Registrable Securities may be a "universal" shelf registration statement covering additional securities of the Company and the Registration Statement may also register for resale by the holders thereof Ordinary Shares representing up to 631,580 ADSs and up to 252,632 Warrant ADSs in connection with the sale of up to 631,580 Units.

(iii) Notwithstanding anything to the contrary herein, if the SEC takes the position that the offering of some or all of the Registrable Securities in the Initial Registration Statement (and/or any other securities registered therein) is not eligible to be made on a delayed or continuous basis under the provisions of Rule 415 as a result of a characterization by the SEC of the transaction described by the Initial Registration Statement as a primary offering by the Company, the Company shall use its reasonable best efforts to persuade the SEC that the offering contemplated by the Initial Registration Statement is a valid secondary offering and not an offering "by or on behalf of the issuer" as defined in Rule 415. In the event that, despite the Company's reasonable best efforts and compliance with the terms of this Section 8(a)(iii), the SEC refuses to alter its position, the Company shall remove from the Initial Registration Statement such portion of the Registrable Securities and/or other securities registered therein (the "Cut Back ADSs") as the SEC may require to assure the Company's compliance with the requirements of Rule 415; provided, however, that the Company shall have no liability to the Buyer pursuant to Section 8(c) or otherwise as a result of the failure to register any Registrable Securities as a result of the SEC's application of Rule 415 despite the Company's reasonable best efforts to persuade the SEC that the offering contemplated by the Registration Statement is a valid secondary offering and not an offering "by or on behalf of the issuer" as defined in Rule 415. As soon as practicable following such intervening period of time as shall be required by the SEC or SEC guidance prior to the filing thereof, the Company shall file one or more additional registration statements covering the resale of as many Cut Back ADSs allowed by the SEC or SEC guidance to be so registered while maintaining the Company's compliance with Rule 415 (each, an "Additional Registration Statement"). The Company shall use its commercially reasonable efforts to file each Additional Registration Statement on or prior to the twentieth (20^{th}) day after such day that represents the first opportunity that the SEC allows the Additional Registration Statement to be filed without the offering of the shares registered thereunder being deemed a primary offering (the "Additional Registration Statement Filing Eligibility Day") and cause each Additional Registration Statement to be declared effective no later than, as applicable (a) five (5) days after the Company receives notice from the SEC that the Additional Registration Statement will not become subject to review or (b) if the Additional Registration Statement becomes subject to review by the SEC, ninety (90) days after the filing thereof. With regard to any such Additional Registration Statement, all of the provisions of this Section 8(a)(iii) shall again be applicable to the Cut Back Shares. The Company shall give the Buyer prompt notice of the amount of Shares excluded from each Additional Registration Statement. Each Registration Statement shall be on Form F-3 (except if the Company is not then eligible to register for resale the Registrable Securities on Form F-3, in which case such registration shall be on another appropriate form in accordance with the Securities Act and the Exchange Act).

(iv) Within two (2) Business Days of the effective date of any Registration Statement, the Company shall give notice to the Buyer of such effectiveness and cause its counsel to issue an appropriate opinion or opinions to the Depositary, substantially to the effect that the shares are subject to an effective registration statement and can be reissued free of restrictive legend upon notice of a sale by Buyer and confirmation by Buyer that it has complied with the prospectus delivery requirements, provided that the Company has not advised the Depositary orally or in writing that the opinion has been withdrawn.

(b) Transfer of Registrable Securities After Registration. The Buyer agrees that it will not effect any disposition of the Registrable Securities or its right to purchase the Registrable Securities that would constitute a sale within the meaning of the Securities Act or pursuant to any applicable state securities laws, except as contemplated in the Registration Statement referred to in Section 8(a) or as otherwise permitted by law, and that it will promptly notify the Company of any changes in the information set forth in the Registration Statement regarding the Buyer or its plan of distribution.

(c) Indemnification. For purposes of this Section 8(c), the term "Selling Stockholder" means the Buyer and any affiliate of the Buyer; the term "Registration Statement" shall include each Registration Statement and any Prospectus, in the form first filed with the SEC pursuant to Rule 424(b) under the Securities Act or filed as part of such Registration Statement at the time of effectiveness if no Rule 424(b) filing is required, supplement or amendment included in or relating to each such Registration Statement; and (for purposes of clause (iv) below) the term "untrue statement" shall include any untrue statement or alleged untrue statement of a material fact required, or any omission or alleged omission to state in the Registration Statement a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(i) The Company agrees to indemnify and hold harmless each Selling Stockholder and its officers, directors, partners, members, agents and employees from and against any losses, claims, damages or liabilities to which such Selling Stockholder, officer, director, partner, member, agent or employee may become subject (under the Securities Act or otherwise) insofar as such losses, claims, damages or liabilities (or actions or proceedings in respect thereof) arise out of, or are based upon (A) any breach of the representations or warranties of the Company contained herein or failure to comply with the covenants and agreements of the Company contained herein, (B) any untrue or alleged untrue statement of a material fact contained in the Registration Statement as amended at the time of effectiveness or any omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein not misleading, (C) any failure by the Company to fulfill any undertaking included in the Registration Statement as amended at the time of effectiveness, (D) any claim by Stifel, Roth or any other placement agent, broker, finder, investment banker or other agent for any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of the Company, or (E) any cause of action, suit, proceeding or claim brought or made against any such indemnitee by a third party (including for these purposes a derivative action brought on behalf of the Company) or which otherwise involves any such indemnitee that arises out of or results from (I) the execution, delivery or performance of any of this Agreement and/or the Warrant or (II) any disclosure properly made by the Buyer pursuant to Section 4(d), and the Company will reimburse such Selling Stockholder for any reasonable legal or other expenses reasonably incurred in investigating, defending or preparing to defend any such action, proceeding or claim, provided, however, that the Company shall not be liable in any such case to the extent that such loss, claim, damage or liability arises out of, or is based upon, an untrue or alleged untrue statement made in such Registration Statement or any omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein not misleading in reliance upon and in conformity with written information furnished to the Company by or on behalf of such Selling Stockholder specifically for use in preparation of the Registration Statement, or the failure of such Selling Stockholder to comply with its covenants and agreements contained in Section 8(b) hereof respecting sale of the Registrable Securities or any statement or omission in any Prospectus that is corrected in any subsequent Prospectus that was delivered to the Selling Stockholder prior to the pertinent sale or sales by the Selling Stockholder. The Company shall reimburse each Selling Stockholder for the amounts provided for herein on demand as such expenses are incurred as reasonably documented by the Selling Stockholder.

(ii) The Buyer agrees to indemnify and hold harmless the Company and its affiliates and their respective officers, directors, partners, members, agents and employees from and against any losses, claims, damages or liabilities to which the Company, affiliate, officer, director, partner, member, agent or employee may become subject (under the Securities Act or otherwise), insofar as such losses, claims, damages or liabilities (or actions or proceedings in respect thereof) arise out of, or are based upon, (A) any breach of the representations or warranties of the Buyer contained herein or failure to comply with the covenants and agreements of the Buyer contained herein, (B) any untrue or alleged untrue statement of a material fact contained in the Registration Statement or any omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein not misleading if such untrue statement or omission was made in reliance upon and in conformity with written information furnished by or on behalf of the Buyer specifically for use in preparation of the Registration Statement or (C) the use by the Buyer of an outdated or defective Prospectus after the Company has notified the Buyer in writing that the Prospectus is outdated or defective and prior to the receipt by the Buyer of the amended or supplemented Prospectus, and the Buyer will reimburse the Company (or such officer, director or controlling person), as the case may be, for any legal or other expenses reasonably incurred in investigating, defending or preparing to defend any such action, proceeding or claim; provided that Buyer's obligation to indemnify the Company shall be limited to the net amount received by the Buyer from the sale of the Registrable Securities.

(iii) Promptly after receipt by any indemnified person of a notice of a claim or the beginning of any action in respect of which indemnity is to be sought against an indemnifying person pursuant to this Section 8(c), such indemnified person shall notify the indemnifying person in writing of such claim or of the commencement of such action, but the failure to so notify the indemnifying person will not relieve it from any liability which it may have to any indemnified person under this Section 8(c) or from any liability otherwise than under this Section 8(c) (except to the extent that such omission materially and adversely affects the indemnifying person's ability to defend such action). Subject to the provisions hereinafter stated, in case any such action shall be brought against an indemnified person, the indemnifying person shall be entitled to participate therein, and, to the extent that it shall elect by written notice delivered to the indemnified person promptly after receiving the aforesaid notice from such indemnified person, shall be entitled to assume the defense thereof, with counsel reasonably satisfactory to such indemnified person. After notice from the indemnifying person to such indemnified person of its election to assume the defense thereof, such indemnifying person shall not be liable to such indemnified person for any legal expenses subsequently incurred by such indemnified person in connection with the defense thereof; provided, however, that if there exists or shall exist a conflict of interest that would make it inappropriate, in the opinion of counsel to the indemnified person, for the same counsel to represent both the indemnified person and such indemnifying person or any affiliate or associate thereof, the indemnified person shall be entitled to retain its own counsel at the expense of such indemnifying person; provided further, that no indemnifying person shall be responsible for the fees and expenses of more than one separate counsel (together with appropriate local counsel) for all indemnified parties. In no event shall any indemnifying person be liable in respect of any amounts paid in settlement of any action unless the indemnifying person shall have approved the terms of such settlement; provided that such consent shall not be unreasonably withheld. No indemnifying person shall, without the prior written consent of the indemnified person, effect any settlement of any pending or threatened proceeding in respect of which any indemnified person is a party and indemnification could have been sought hereunder by such indemnified person, unless such settlement includes an unconditional release of such indemnified person from all liability on claims that are the subject matter of such proceeding.

(iv) If the indemnification provided for in this Section 8(c) is unavailable to or insufficient to hold harmless an indemnified person under clause (i) or (ii) above in respect of any losses, claims, damages or liabilities (or actions or proceedings in respect thereof) referred to therein, then each indemnifying person shall contribute to the amount paid or payable by such indemnified person as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect the relative fault of the Company on the one hand and the Buyer, as well as any other Selling Stockholders under such registration statement on the other in connection with the statements or omissions or other matters which resulted in such losses, claims, damages or liabilities (or actions in respect thereof), as well as any other relevant equitable considerations. The relative fault shall be determined by reference to, among other things, in the case of an untrue or alleged untrue statement, whether the untrue statement relates to information supplied by the Company on the one hand or the Buyer or other Selling Stockholder on the other and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such untrue statement. The Company and the Buyer agree that it would not be just and equitable if contribution pursuant to this clause (iv) were determined by pro rata allocation (even if the Buyer and other Selling Stockholders were treated as one entity for such purpose) or by any other method of allocation which does not take into account the equitable considerations referred to above in this clause (iv). The amount paid or payable by an indemnified person as a result of the losses, claims, damages or liabilities (or actions in respect thereof) referred to above in this clause (iv) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified person in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this clause (iv), the Buyer shall not be required to contribute any amount in excess of the amount by which the net amount received by the Buyer from the sale of the Registrable Securities to which such loss relates exceeds the amount of any damages which the Buyer has otherwise been required to pay by reason of such untrue or alleged untrue statement. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

(v) The parties to this Agreement hereby acknowledge that they are sophisticated business persons who were represented by counsel during the negotiations regarding the provisions hereof including, without limitation, the provisions of this Section 8(c), and are fully informed regarding said provisions. They further acknowledge that the provisions of this Section 8(c) fairly allocate the risks in light of the ability of the parties to investigate the Company and its business in order to assure that adequate disclosure is made in the Registration Statement as required by the Securities Act and the Exchange Act. The parties are advised that U.S. federal or state public policy as interpreted by the courts in certain jurisdictions may be contrary to certain of the provisions of this Section 8(c), and the parties hereto hereby expressly waive and relinquish any right or ability to assert such public policy as a defense to a claim under this Section 8(c) and further agree not to attempt to assert any such defense.

(d) Termination of Conditions and Obligations. The restrictions imposed by Section 5(a) or Section 8(b) upon the transferability of the Registrable Securities shall cease and terminate as to any particular number of the Registrable Securities at such time as such Registrable Securities shall have been effectively registered under the Securities Act and sold or otherwise disposed of in accordance with the intended method of disposition set forth in the Registration Statement covering such shares, or at such time as an opinion of counsel reasonably satisfactory to the Company shall have been rendered to the effect that such Registrable Securities can be sold, assigned or transferred pursuant to Rule 144 under the Securities Act (or a successor rule thereto) or another exemption from the registration requirements of the Securities Act without volume limitations.

(e) Liquidated Damages. The Company and the Buyer agree that Buyer will suffer damages if the Company fails to fulfill its obligations pursuant to Section 8(a) hereof and that it would not be possible to ascertain the extent of such damages with precision. Accordingly, subject to Section 8(a) (iii) hereof, the Company hereby agrees to pay liquidated damages ("Liquidated Damages") to Buyer under the following circumstances: (i) if the Initial Registration Statement covering all of the Registrable Securities required or permitted to be covered by it is not filed by the Company on or prior to the Filing Deadline or any Additional Registration Statement covering all of the Registrable Securities required or permitted to be covered by it is not filed on or prior to the twentieth (20^{th}) day after the Additional Registration Statement Filing Eligibility Day (either such event, a "Filing Default"); (ii) if the Initial Registration Statement covering all of the Registrable Securities required or permitted to be covered by it is not declared effective by the SEC on or prior to the Effectiveness Deadline or any Additional Registration Statement covering all of the Registrable Securities required or permitted to be covered by it is not declared effective on or prior to the fifth (5^{th}) day after the Company receives notice from the SEC that such Additional Registration Statement will not become subject to review (or, if such Additional Registration Statement becomes subject to review by the SEC, on or prior to the ninetieth (90^{th}) day after the filing thereof) (either such event, an "Effectiveness Default"); or (iii) subject to the Blackout Period (described below), if, after the effective date of any Registration Statement, such Registration Statement ceases to be effective and available to the Buyer for the resale of the Registrable Securities required or permitted to be covered by it during the Effectiveness Period (a "Maintenance Default" and, together with a Filing Default and an Effectiveness Default, a "Registration Default"). In the event of a Registration Default, the Company shall pay to Buyer as Liquidated Damages, for each thirty (30) day period of a Registration Default, an amount in cash equal to 0.75% of the aggregate purchase price paid by Buyer pursuant to this Agreement (increasing to 1.25% for each thirty (30) day period (or portion thereof) commencing on or after the six month anniversary of the day on which a continuing Registration Default first occurred); provided that in no event shall the aggregate amount of cash to be paid as Liquidated Damages pursuant to this Section 8(e) exceed 10% of the aggregate purchase price paid by Buyer. The Company shall pay the Liquidated Damages as follows: (i) in connection with a Filing Default, on the thirty first (31^{st}) day after the Closing Date or the twenty first (21^{st}) day after the applicable Additional Registration Statement Filing Eligibility Day, as applicable, and, in each case, each thirtieth (30^{th}) day thereafter until the Registration Statement is filed with the SEC; (ii) in connection with an Effectiveness Default relating to the Initial Registration Statement, on the earlier of (A) the sixth (6^{th}) day after the Company receives notice from the SEC that such Registration Statement will not become subject to review or (B) the ninety first (91^{st}) day after the filing thereof or if later the one hundred and twenty first (121^{st}) day after the Closing Date, and each thirtieth (30^{th}) day thereafter until the Initial Registration Statement is declared effective by the SEC; (iii) if such Effectiveness Default relates to an Additional Registration Statement, on the sixth (6^{th}) day after the Company receives notice from the SEC that such Additional Registration Statement will not become subject to review (or, if such Additional Registration Statement becomes subject to review by the SEC, the ninety first (91^{st}) day after the filing date thereof) and each thirtieth (30^{th}) day thereafter until the Additional Registration Statement is declared effective by the SEC; and (iv) in connection with a Maintenance Default, on the first date of such Maintenance Default and each thirtieth (30^{th}) day thereafter until such Maintenance Default is cured. The Liquidated Damages payable herein shall apply on a pro rata basis for any portion of a thirty (30) day period of a Registration Default. In the event that the Company fails to make a Liquidated Damages payment in a timely manner, the past due amount of such Liquidated Damages shall bear interest at the rate of 2% per month (prorated for partial months) until paid in full. Notwithstanding the foregoing, the Company shall not be liable to the Buyer pursuant to this Section 8(e) as a result of the failure to register any Registrable Securities as a result of the Buyer's refusal to be named as an "underwriter" in any Registration Statement.

(f) Suspensions of Registration Statement. Notwithstanding the foregoing, if at any time or from time to time after the date of effectiveness of a Registration Statement, the Company's Board of Directors determines in good faith that the maintenance by the Company and use by the Buyer of an effective Registration Statement at such time would require the disclosure of material nonpublic information the disclosure of which at the time would cause material harm to the Company and which the failure to disclose while maintaining a Registration Statement in effect would reasonably be expected to constitute a material violation of law, the Company shall deliver a certificate in writing to the Buyer, duly executed by the Chief Executive Officer of the Company (the "Suspension Notice"), to the effect of the foregoing (provided that the Company will not disclose the content of any material non-public information to the Buyer in any Suspension Notice) and, upon receipt of such Suspension Notice, the Buyer will refrain from selling any Registrable Securities pursuant to the Registration Statement (a "Suspension") until the Buyer's receipt of copies of a supplemented or amended Prospectus prepared and filed by the Company or until it is advised in writing by the Company that the current Prospectus may be used, and has received copies of any additional or supplemental filings that are incorporated or deemed incorporated by reference in any such Prospectus. In the event of any Suspension, the Company shall use its best efforts to cause the use of the Prospectus so suspended to be resumed as soon as practicable after the delivery of a Suspension Notice to the Buyer and to notify the Buyer in writing that the use of such Prospectus may be resumed (i) simultaneously with the issuance of a Report of Foreign Private Issuer on Form 6-K that is incorporated or deemed incorporated by reference in any such Prospectus and as a result of which the use of the Prospectus may be resumed or (ii) promptly (and in any event no later than one hour) after determining that the current Prospectus may be used. Notwithstanding anything contained in this Section 8(f) to the contrary, the Buyer shall not be prohibited from selling any Registrable Securities under a Registration Statement as a result of a Suspension on more than two occasions and an aggregate of 30 days in any twelve month period for all Suspensions in such period.

(g) Additional Registration Statements. Subject to the provisions of Section 8(a)(iii), if during the Effectiveness Period the number of Registrable Securities at any time exceeds 100% of the number of Ordinary Shares then registered for resale by the Buyer in a Registration Statement, then the Company shall file as soon as reasonably practicable, but in any case prior to the thirtieth (30^{th}) day thereafter, an additional Registration Statement covering the resale by the Buyer of not less than the number of such Registrable Securities not yet registered and all of the provisions of this Section 8 shall apply with respect to such Registration Statement, mutatis mutandis.

9 **MISCELLANEOUS**.

(a) Governing Law; Jurisdiction; Jury Trial. This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York, without giving effect to the principles of conflicts of law (whether of the State of New York or any other jurisdictions) that would cause the application of the laws of any jurisdictions other than the State of New York. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in The City of New York, Borough of Manhattan, for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is brought in an inconvenient forum or that the venue of such suit, action or proceeding is improper. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address for such notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. Nothing contained herein shall be deemed or operate to preclude the Buyer from bringing suit or taking other legal action against the Company in any other jurisdiction to collect on the Company's obligations to the Buyer or to enforce a judgment or other court ruling in favor of the Holder. EACH PARTY HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE TO, AND AGREES NOT TO REQUEST, A JURY TRIAL FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION WITH OR ARISING OUT OF THIS AGREEMENT OR ANY TRANSACTION CONTEMPLATED HEREBY.

(b) Counterparts. This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party. In the event that any signature is delivered by facsimile transmission or by an e-mail which contains a portable document format (.pdf) file of an executed signature page, such signature page shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such signature page were an original thereof.

(c) Headings; Gender. The headings of this Agreement are for convenience of reference and shall not form part of, or affect the interpretation of, this Agreement. Unless the context clearly indicates otherwise, each pronoun herein shall be deemed to include the masculine, feminine, neuter, singular and plural forms thereof. The terms "including," "includes," "include" and words of like import shall be construed broadly as if followed by the words "without limitation." The terms "herein," "hereunder," "hereof" and words of like import refer to this entire Agreement instead of just the provision in which they are found.

(d) Severability. If any provision of this Agreement is prohibited by law or otherwise determined to be invalid or unenforceable by a court of competent jurisdiction, the provision that would otherwise be prohibited, invalid or unenforceable shall be deemed amended to apply to the broadest extent that it would be valid and enforceable, and the invalidity or unenforceability of such provision shall not affect the validity of the remaining provisions of this Agreement so long as this Agreement as so modified continues to express, without material change, the original intentions of the parties as to the subject matter hereof and the prohibited nature, invalidity or unenforceability of the provision(s) in question does not substantially impair the respective expectations or reciprocal obligations of the parties or the practical realization of the benefits that would otherwise be conferred upon the parties. The parties will endeavor in good faith negotiations to replace the prohibited, invalid or unenforceable provision(s) with a valid provision(s), the effect of which comes as close as possible to that of the prohibited, invalid or unenforceable provision(s).

(e) Entire Agreement; Amendments Notwithstanding anything else contained herein, this Agreement and the Warrant constitute the entire agreement between the parties hereto and supersede any prior understandings or agreements concerning the purchase and sale of the Units and the resale registration of the Registrable Securities. This Agreement may be modified, amended or waived only pursuant to a written instrument signed by the Company and the Buyer.

(f) Notices. All notices, requests, consents and other communications hereunder shall be in writing, shall be delivered via Federal Express (or other recognized international express courier) or facsimile; shall be deemed given (i) if delivered by a recognized international express courier, upon delivery to the recipient and (ii) if delivered by facsimile or email, upon electronic confirmation of receipt (including by reply email); and shall be delivered to the persons at the addresses or facsimile numbers such forth below (or to such persons or via such facsimile number or address as subsequently modified by written notice given in accordance with this Section 9(f)).

If to the Company:	RedHill Biopharma Ltd. 21 Ha'arba'a St. Tel-Aviv 64739, Israel Facsimile: +972 (0)3 541 3144 Email: ori@redhillbio.com Attention: Ori Shilo
With a copy (for informational purposes only) to:	Gross, Kleinhendler, Hodak, Halevy, Greenberg & Co. One Azrieli Center Tel Aviv, Israel 67021 Facsimile: +972 (0)3 607 4411 Email: perry@gkh-law.com Attention: Perry Wildes, Adv.
If to the Buyer:	Broadfin Healthcare Master Fund, LTD c/o Broadfin Capital, LLC 237 Park Avenue, Suite 900 New York, NY 10017 Facsimile: (212) 808-2464 Email: Dan@broadfincapital.com Attention: Dan Wichman

with a copy (for informational purposes only) to:

Broadfin Healthcare Master Fund, LTD
c/o Broadfin Capital, LLC
237 Park Avenue, Suite 900
New York, NY 10017
Facsimile: 212 808 2464
Email: jason@broadfincapital.comAttention: Jason Abrams

(g) Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and assigns, including, as contemplated below, any assignee or transferee of any of the Offered Securities. The Company shall not assign this Agreement or any rights or obligations hereunder without the prior written consent of the Buyer (which may be granted or withheld in the sole discretion of the Buyer). A Buyer may assign some or all of its rights hereunder in connection with any permitted assignment or transfer of any of its Securities without the consent of the Company, in which event such assignee or transferee (as the case may be) shall be deemed to be the Buyer hereunder with respect to such assigned rights.

(h) No Third Party Beneficiaries. This Agreement is intended for the benefit of the parties hereto and their respective permitted successors and assigns, and is not for the benefit of, nor may any provision hereof be enforced by, any other Person, other than the parties entitled to indemnification pursuant to Section 8(c).

(i) Survival. The representations, warranties, agreements and covenants contained in this Agreement shall survive the Closing indefinitely.

(j) Further Assurances. Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as any other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

(k) Construction. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party. No specific representation or warranty shall limit the generality or applicability of a more general representation or warranty. Each and every reference to the price and/or number of Ordinary Shares, Warrants and or ADSs and any other numbers in this Agreement that relate to the Ordinary Shares, Warrants and or ADSs shall be automatically adjusted for stock splits, stock combinations and other similar transactions that occur with respect to the Ordinary Shares after the date of this Agreement.

(l) Remedies. The Buyer and each holder of any Securities shall have all rights and remedies set forth in this Agreement and the Warrant and all rights and remedies which such holders have been granted at any time under any other agreement or contract and all of the rights which such holders have under any law. Any Person having any rights under any provision of this Agreement shall be entitled to enforce such rights specifically (without posting a bond or other security, to the extent permitted by law), to recover damages by reason of any breach of any provision of this Agreement and to exercise all other rights granted by law. Furthermore, the Company recognizes that in the event that it fails to perform, observe, or discharge any or all of its obligations under this Agreement and/or the Warrant, any remedy at law may prove to be inadequate relief to the Buyer. The Company therefore agrees that the Buyer shall be entitled to seek specific performance and/or temporary, preliminary and permanent injunctive or other equitable relief from any court of competent jurisdiction in any such case without the necessity of proving actual damages and without posting a bond or other security.

[*Signature page follows.*]

IN WITNESS WHEREOF, the Buyer and the Company have executed this Agreement as of the date first written above.

COMPANY:

COMPANY:

REDHILL BIOPHARMA LTD.

By: /s/Dror Ben-Asher
Name: Dror Ben-Asher
Title: Chief Executive Officer

By: /s/Ori Shilo
Name: Ori Shilo
Title: Deputy CEO, Finance and Operations

BUYER:

BROADFIN HEALTHCARE MASTER FUND, LTD

By: BROADFIN CAPITAL, LLC, its investment advisor

By: /s/Kevin Kotler
Name: Kevin Kotler
Title: Managing Partner

EXHIBIT A

FORM OF WARRANT

THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED ("THE SECURITIES ACT")). THESE SECURITIES, AND THE SECURITIES INTO WHICH THEY ARE EXERCISABLE, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (2) PURSUANT TO AN OTHER EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT, AS CONFIRMED BY AN OPINION OF UNITED STATES COUNSEL THAT IS SATISFACTORY TO THE COMPANY, OR (3) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE STATE SECURITIES LAWS AND THE SECURITIES LAWS OF OTHER JURISDICTIONS. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES.

REDHILL BIOPHARMA LTD.

WARRANT TO PURCHASE AMERICAN DEPOSITARY SHARES

Warrant No.: 2
Number of American Depositary Shares: 105,264
Date of Issuance: January 8, 2014 (the "**Issuance Date**")

RedHill Biopharma Ltd., a company limited by shares organized under the laws of the State of Israel (the "**Company**"), hereby certifies that, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Broadfin Healthcare Master Fund, LTD, the registered holder hereof or its permitted assigns (the "**Holder**"), is entitled, subject to the terms set forth below, to purchase from the Company, at the Exercise Price (as defined below) then in effect, upon exercise of this Warrant to Purchase American Depositary Shares ("**ADSs**") (including any Warrants to Purchase American Depositary Shares issued in exchange, transfer or replacement hereof, the "**Warrant**"), at any time or times on or after the Issuance Date, but not after 11:59 p.m., New York time, on the Expiration Date (as defined below), 105,264 (subject to adjustment as provided herein) ADSs (the "**Warrant ADSs**"). For purposes of clarification, each ADS represents ten ordinary shares, par value NIS 0.01 per share of the Company (the "**Ordinary Shares**"). Except as otherwise defined herein, capitalized terms in this Warrant shall have the meanings set forth in Section 15. This Warrant is the Warrant issued pursuant to that certain Securities Purchase Agreement, dated as of December 31, 2013, by and between the Company and the Holder (as the same may be amended from time to time, the "**Securities Purchase Agreement**").

1 **EXERCISE OF WARRANT.**

(a) Mechanics of Exercise.

(i) Subject to the terms and conditions hereof (including, without limitation, the limitations set forth in Section 1(g)(i)), this Warrant may be exercised by the Holder on any day on or after the Issuance Date, in whole or in part, by delivery (via electronic mail or, if electronic mail is not available, by any other method of providing notice provided for in Section 8 hereof) of a written notice, in the form attached hereto as Exhibit A (the "**Exercise Notice**"), of the Holder's election to exercise this Warrant. Any exercise by the Holder of this Warrant must be pursuant to a valid exemption from registration under the Securities Act or a transaction not subject to the registration provisions of the Securities Act. Within two (2) Trading Days following an exercise of this Warrant as aforesaid, the Holder shall deliver payment to the Company of an amount equal to the Exercise Price in effect on the date of such exercise multiplied by the number of Warrant ADSs as to which this Warrant was so exercised (the "**Aggregate Exercise Price**"), via wire transfer of immediately available funds if the Holder did not notify the Company in such Exercise Notice that such exercise was made pursuant to a Cashless Exercise (as defined in Section 1(d)). The Holder shall not be required to deliver the original of this Warrant in order to effect an exercise hereunder. Notwithstanding anything herein to the contrary, the Holder shall not be required to physically surrender this Warrant to the Company until the Holder has purchased all of the Warrant ADSs available hereunder and the Warrant has been exercised in full, in which case, the Holder shall surrender this Warrant to the Company for cancellation within three (3) Trading Days of the date the final Notice of Exercise is delivered to the Company. Partial exercises of this Warrant resulting in purchases of a portion of the total number of Warrant ADSs available hereunder shall have the effect of lowering the outstanding number of Warrant ADSs purchasable hereunder in an amount equal to the applicable number of Warrant ADSs purchased. The Company shall maintain records showing the number of Warrant ADSs purchased and the date of such purchases. **The Holder and any assignee, by acceptance of this Warrant, acknowledge and agree that, by reason of the provisions of this paragraph, following the purchase of a portion of the Warrant ADSs hereunder, the number of Warrant ADSs available for purchase hereunder at any given time may be less than the amount stated on the face hereof.**

(ii) On or before the second (2nd) Trading Day following the date on which the Company has received an Exercise Notice, the Company shall transmit by facsimile or electronic mail an acknowledgment of confirmation of receipt of such Exercise Notice, in the form attached hereto as Exhibit B, to the Holder and The Bank of New York Mellon, the Depositary for the ADSs (the "**Depositary**"). On or before the fifth (5^{th}) Trading Day following the date on which the Company has received such Exercise Notice, subject to receipt of the Aggregate Exercise Price therefor (the "**Share Delivery Date**"), the Company shall (X) issue and deposit with the Depositary a number of Ordinary Shares that will be represented by the number of Warrant ADSs to which the Holder is entitled in respect of that exercise, (Y) pay the fee of the Depositary for the issuance of that number of ADSs and (Z) at the option of the Holder (as set forth in the Exercise Notice), instruct the Depositary to either (1) execute and deliver to that Holder, by physical delivery via overnight courier to the address specified by the Holder in the Exercise Notice by the Share Delivery Date, an American Depositary Receipt ("**ADR**") evidencing that number of Warrant ADSs or (2) record the issuance of the ADSs in book-entry form and deliver to the Holder evidence of such issuance (in each case, subject to the restrictive legends or stop transfer instructions, if any, required by Section 5 of the Securities Purchase Agreement). If a restrictive legend is not then required to be included on the Warrant ADSs by Section 5 of the Securities Purchase Agreement, certificates for the Warrant ADSs purchased hereunder shall be transmitted by the Depositary to the Holder by crediting the account of the Holder's prime broker with The Depository Trust Company ("**DTC**") through its Deposit or Withdrawal at Custodian system if the Company is then a participant in such system. Upon delivery of an Exercise Notice and (unless such exercise was made pursuant to a Cashless Exercise) payment of the Aggregate Exercise Price, the Holder shall be deemed for all corporate purposes to have become the holder of record of the Warrant ADSs with respect to which this Warrant has been exercised, irrespective of the date such Warrant ADSs are credited to the Holder's DTC account, the date of delivery of the certificates evidencing such Warrant ADSs or the date of issuance of the ADSs in book-entry form (as the case may be), except to the extent provided by law. If this Warrant is submitted in connection with any exercise pursuant to this Section 1(a) and the number of Warrant ADSs represented by this Warrant submitted for exercise is greater than the number of Warrant ADSs being acquired upon an exercise, then, at the request of the Holder, the Company shall as soon as practicable and in no event later than four (4) Business Days after any exercise and at its own expense, issue and deliver to the Holder (or its designee) a new Warrant (in accordance with Section 7(d)) representing the right to purchase the number of Warrant ADSs purchasable immediately prior to such exercise under this Warrant, less the number of Warrant ADSs with respect to which this Warrant is exercised. No fractional ADSs are to be issued upon the exercise of this Warrant, but rather, in lieu of delivering such fractional ADS, the Company shall pay to the exercising Holder an amount in cash equal to the Closing Sale Price on the Principal Market of such fractional ADS on the date of exercise. The Company shall pay any and all taxes and fees which may be payable with respect to the issuance and delivery of Warrant ADSs upon exercise of this Warrant, provided that in the event certificates for Warrant Shares are to be issued in a name other than the name of the Holder, the Company may require, as a condition thereto, the payment of a sum sufficient to reimburse it for any transfer tax incidental thereto.

(b) Exercise Price. For purposes of this Warrant, "**Exercise Price**" means $11.00, subject to adjustment as provided herein.

(c) Company's Failure to Timely Deliver Securities. If the Depositary fails, for any reason or for no reason, to deliver the Warrant ADSs upon an exercise by the Share Delivery Date, and if on or after the Share Delivery Date the Holder (or any other Person in respect, or on behalf, of the Holder) purchases (in an open market transaction or otherwise) ADSs or Ordinary Shares to deliver in satisfaction of a sale to a non-affiliate by the Holder of ADSs issuable upon such exercise that the Holder anticipated receiving from the Depositary upon such exercise (a "**Buy-In**"), then, in addition to all other remedies available to the Holder, the Company shall, (A) within three (3) Trading Days after the Holder's request promptly honor its obligation to cause the Depositary to issue and deliver to the Holder one or more ADRs representing such Warrant ADSs, record the issuance of the ADSs in book-entry form and deliver to the Holder evidence of such issuance or credit the Holder's balance account with DTC for the number of Warrant ADSs to which the Holder is entitled upon the Holder's exercise hereunder (as the case may be) and (B) pay cash to the Holder in an amount equal to the excess (if any) of the Holder's total purchase price (including brokerage commissions and other out-of-pocket expenses, if any) for the ADSs or Ordinary Shares so purchased (including, without limitation, by any other Person in respect, or on behalf, of the Holder) over the product of (1) such number of Warrant ADSs and (2) the price at which the sell order giving rise to the Holder's purchase obligation was executed. For example, if the Holder purchases ADSs having a total purchase price of $11,000 to cover a Buy-In with respect to an attempted exercise of Warrant ADSs with an aggregate sale price giving rise to such purchase obligation of $10,000, under clause (B) of the immediately preceding sentence the Company shall be required to pay the Holder $1,000. The Holder shall provide the Company written notice indicating the amounts payable to the Holder in respect of the Buy-In and, upon request of the Company, evidence of the amount of such loss.

(d) Cashless Exercise. Notwithstanding anything contained herein to the contrary (other than Section 1(g)(i) below), the Holder may, in its sole discretion, exercise this Warrant in whole or in part and, in lieu of making the cash payment otherwise contemplated to be made to the Company upon such exercise in payment of the Aggregate Exercise Price, elect instead to receive upon such exercise the "Net Number" of Warrant ADSs determined according to the following formula (a "**Cashless Exercise**"):

$$\text{Net Number} = \frac{(A \times B) - (A \times C)}{B}$$

For purposes of the foregoing formula:

A= the total number of Warrant ADSs with respect to which this Warrant is then being exercised.

B= the weighted average of the Closing Sale Prices of the ADSs for the five Trading Days immediately preceding the date of the applicable Exercise Notice.

C= the Exercise Price then in effect for the applicable Warrant ADSs at the time of such exercise.

(e) Rule 144. For purposes of Rule 144(d) promulgated under the Securities Act, as in effect on the date hereof, the Warrant ADSs issued in a Cashless Exercise shall be deemed to have been acquired by the Holder, and the holding period for the Warrant ADSs shall be deemed to have commenced, on the date this Warrant was originally issued pursuant to the Securities Purchase Agreement.

(f) Disputes. In the case of a dispute as to the determination of the Exercise Price or the arithmetic calculation of the number of Warrant ADSs to be issued pursuant to the terms hereof, the Company shall promptly issue to the Holder the number of Warrant ADSs that are not disputed.

(g) Holder's Exercise Limitations.

(i) *Beneficial Ownership*. Notwithstanding anything to the contrary contained in this Warrant, this Warrant shall not be exercisable by the Holder hereof to the extent (but only to the extent) that after giving effect to such issuance after exercise as set forth in the applicable Exercise Notice the Holder (together with the Holder's Affiliates, and any other Persons acting as a group together with the Holder or any of the Holder's Affiliates), would beneficially own in excess of 9.9% (the "**Maximum Percentage**") of the Ordinary Shares of the Company then outstanding. For purposes of the foregoing sentence, the number of Ordinary Shares beneficially owned by the Holder and its Affiliates shall include the number of Ordinary Shares underlying ADSs issuable upon exercise of this Warrant with respect to which such determination is being made, but shall exclude the number of Ordinary Shares underlying ADSs which would be issuable upon (A) exercise of the remaining, nonexercised portion of this Warrant beneficially owned by the Holder or any of its Affiliates and (B) exercise or conversion of the unexercised or unconverted portion of any other securities of the Company subject to a limitation on conversion or exercise analogous to the limitation contained herein beneficially owned by the Holder or any of its Affiliates. Except as set forth in the preceding sentence, for purposes of this Section 1(g)(i), beneficial ownership shall be calculated in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder, it being acknowledged by the Holder that the Company is not representing to the Holder that such calculation is in compliance with Section 13(d) of the Exchange Act and the Holder is solely responsible for any schedules required to be filed in accordance therewith. To the extent that the limitation contained in this Section 1(g)(i) applies, the determination of whether this Warrant is exercisable (in relation to other securities owned by the Holder together with any Affiliates) and of which portion of this Warrant is exercisable shall be in the sole discretion of the Holder, and the submission of an Exercise Notice shall be deemed to be the Holder's determination of whether this Warrant is exercisable (in relation to other securities owned by the Holder together with any Affiliates) and of which portion of this Warrant is exercisable, in each case subject to the Beneficial Ownership Limitation. To ensure compliance with this restriction, the Holder will be deemed to represent to the Company each time it delivers an Exercise Notice that such Exercise Notice has not violated the restrictions set forth in this paragraph and the Company shall have no obligation to verify or confirm the accuracy of such determination. In addition, a determination as to any group status as contemplated above shall be determined in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder. For purposes of this Section 1(g)(i), in determining the number of outstanding Ordinary Shares, a Holder may rely on the number of outstanding Ordinary Shares as stated in the most recent of the following: (X) the Company's most recent periodic or annual report filed with the Securities and Exchange Commission (the "**SEC**"), as the case may be, (Y) a more recent public announcement by the Company or (Z) a more recent written notice by the Company or the Depositary setting forth the number of Ordinary Shares outstanding. No prior inability to exercise this Warrant pursuant to this paragraph shall have any effect on the applicability of the provisions of this paragraph with respect to any subsequent determination of exercisability. For any reason at any time, upon the written or oral request of the Holder, the Company shall within two (2) Business Days confirm orally and in writing to the Holder the number of Ordinary Shares then outstanding, including by virtue of any prior conversion or exercise of convertible or exercisable securities into Ordinary Shares, including, without limitation, pursuant to this Warrant or securities issued pursuant to the Securities Purchase Agreement. By written notice to the Company, the holder may waive the provisions of this Section 1(g)(i) or increase or decrease the Maximum Percentage to any other percentage specified in such notice; provided that any such waiver or increase will not be effective until the sixty first (61^{st}) day after such notice is delivered to the Company. The Company's obligation to issue Warrant ADSs in excess of the limitation referred to in this Section 1(g)(i) shall be suspended (and shall not terminate or expire notwithstanding any contrary provisions hereof) until such time, if any, as such Warrant ADSs may be issued in compliance with such limitation, but in no event later than the Expiration Date.

(ii) *Insufficient Authorized Shares*. The Company shall at all times keep reserved for issuance under this Warrant a number of Ordinary Shares as shall be necessary to satisfy the Company's obligation to issue the Warrant ADSs hereunder. If, notwithstanding the foregoing, and not in limitation thereof, at any time while this Warrant remains outstanding the Company does not have a sufficient number of authorized and unreserved Ordinary Shares to satisfy its obligation to reserve for issuance upon exercise of this Warrant at least a number of Ordinary Shares equal to the number of Ordinary Shares as shall from time to time be necessary to effect the exercise of this Warrant (the "**Required Reserve Amount**") (an "**Authorized Share Failure**"), then the Company shall immediately take all action necessary to increase the Company's authorized Ordinary Shares to an amount sufficient to allow the Company to reserve the Required Reserve Amount. Without limiting the generality of the foregoing sentence, as soon as practicable after the date of the occurrence of an Authorized Share Failure, but in no event later than sixty (60) days after the occurrence of such Authorized Share Failure, the Company shall hold a meeting of its stockholders and take all action otherwise required for the approval of an increase in the number of Ordinary Shares. In connection with such meeting, the Company shall provide each stockholder with a proxy statement, if required under applicable Israeli or U.S. federal law, and shall use its best efforts to solicit its stockholders' approval of such increase in authorized number of Ordinary Shares and to cause its board of directors to recommend to the stockholders that they approve such proposal.

(iii) *TASE Restrictions.* Notwithstanding any provisions of this Warrant, if prohibited under the regulations of the Tel Aviv Stock Exchange (the "**TASE**") (and the Ordinary Shares are listed thereon), the Holder may not exercise this Warrant on the record date of any one of the following events: (i) distribution of bonus shares; (ii) rights offering; (iii) distribution of dividends; (iv) consolidation of share capital; (v) consolidation of shares; (vi) split of share capital; (vii) reduction of capital (each of the above will be referred to below as a "**Company Event**"). In addition, if prohibited under the regulations of the TASE (and the Ordinary Shares are listed thereon), in the event the ex-date (as defined in the TASE's regulations) of a Company Event on the TASE precedes the record date of such Company Event, this Warrant may not be exercised on such ex-date.

2 **ADJUSTMENT OF EXERCISE PRICE AND NUMBER OF WARRANT ADSS**. The Exercise Price and number of Warrant ADSs issuable upon exercise of this Warrant are subject to adjustment from time to time as set forth in this Section 2.

(a) Adjustment upon Subdivision or Combination of Ordinary Shares or ADSs. Without limiting any provision of Section 4, if the Company, at any time on or after the date of the Securities Purchase Agreement: (i) pays a stock dividend on one or more classes of its then outstanding Ordinary Shares or ADSs or otherwise makes a distribution on any class of capital stock that is payable in Ordinary Shares or ADSs, (ii) subdivides (by any stock split, stock dividend, recapitalization or otherwise) one or more classes of its then outstanding Ordinary Shares or ADSs into a larger number of Ordinary Shares or ADSs or (iii) combines (by combination, reverse stock split or otherwise) one or more classes of its then outstanding Ordinary Shares or ADSs into a smaller number of Ordinary Shares or ADSs, then in each such case the Exercise Price shall be multiplied by a fraction of which the numerator shall be the number of Ordinary Shares or ADSs, as applicable, outstanding immediately before such event and of which the denominator shall be the number of Ordinary Shares or ADSs, as applicable, outstanding immediately after such event. Any adjustment made pursuant to clause (i) of this paragraph shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution, and any adjustment pursuant to clause (ii) or (iii) of this paragraph shall become effective immediately after the effective date of such subdivision or combination. If any event requiring an adjustment under this paragraph occurs during the period that an Exercise Price is calculated hereunder, then the calculation of such Exercise Price shall be adjusted appropriately to reflect such event.

(b) Number of Warrant ADSs. Simultaneously with any adjustment to the Exercise Price pursuant to paragraph (a) of this Section 2, the number of Warrant ADSs that may be purchased upon exercise of this Warrant shall be increased or decreased proportionately, so that after such adjustment the aggregate Exercise Price payable hereunder for the adjusted number of Warrant ADSs shall be the same as the aggregate Exercise Price in effect immediately prior to such adjustment (without regard to any limitations on exercise contained herein). Any adjustments made with respect to the number of Warrant ADSs hereunder as a result of a change in price or number of Ordinary Shares shall be made with respect to the ADSs at a multiple equal to the number of Ordinary Shares then represented by the ADSs.

(c) Other Events. In the event that the Company (or any Subsidiary (as defined in the Securities Purchase Agreement) whether now existing or hereafter created or acquired) shall take any action to which the provisions hereof are not strictly applicable, or if any event occurs of the type contemplated by the provisions of this Section 2 but not expressly provided for by such provisions, then the Company's board of directors shall in good faith determine and implement an appropriate adjustment in the Exercise Price and the number of Warrant ADSs (if applicable) so as to protect the rights of the Holder, provided that no such adjustment pursuant to this Section 2(c) will increase the Exercise Price or decrease the number of Warrant ADSs as otherwise determined pursuant to this Section 2, provided further that if the Holder does not accept such adjustments as appropriately protecting its interests hereunder against such dilution, then the Company's board of directors and the Holder shall agree, in good faith, upon an independent investment bank of nationally recognized standing to make such appropriate adjustments, whose determination shall be final and binding and whose fees and expenses shall be borne by the Company.

(d) Calculations. All calculations under this Section 2 shall be made by rounding to the nearest one-hundred thousandth of a cent or the nearest 1/100th of a share, as applicable. The number of Ordinary Shares or ADSs outstanding at any given time shall not include Ordinary Shares or ADSs owned or held by or for the account of the Company, and the disposition of any such Ordinary Shares or ADSs shall be considered an issue or sale thereof for purposes of this Warrant.

3 **RIGHTS UPON DISTRIBUTION OF ASSETS**. In addition to any adjustments pursuant to Section 2 above, if the Company shall declare or make any dividend or other distribution of its assets (or rights to acquire its assets) to holders of Ordinary Shares or ADSs, by way of return of capital or otherwise (including, without limitation, any distribution of cash, stock or other securities, property or options by way of a dividend, spin off, reclassification, corporate rearrangement, scheme of arrangement or other similar transaction) (a "**Distribution**"), at any time after the issuance of this Warrant, then, in each such case, (a) in the case of a Distribution in cash, if required by the regulations of the TASE (and the Ordinary Shares are listed thereon), the Exercise Price shall be decreased in respect of each Warrant ADS by the amount of the dividend per share (if cash) and (b) in all other cases provided in this Section 3, upon any exercise of the Warrant, the Holder shall be entitled to participate in such Distribution to the same extent that the Holder would have participated therein if the Holder had held the number of ADSs acquirable upon complete exercise of this Warrant (without regard to any limitations on exercise hereof, including without limitation, the Maximum Percentage) immediately before the date on which a record is taken for such Distribution, or, if no such record is taken, the date as of which the record holders of Ordinary Shares or ADSs, as applicable, are to be determined for the participation in such Distribution (provided, however, to the extent that the Holder's right to participate in any such Distributions would result in the Holder exceeding the Maximum Percentage, then the Holder shall not be entitled to participate in such Distribution to such extent (or the beneficial ownership of any Ordinary Shares as a result of such Distribution to such extent) and such Distribution to such extent shall be held in abeyance for the benefit of the Holder until such time, if ever, as its right thereto would not result in the Holder exceeding the Maximum Percentage).

4 **PURCHASE RIGHTS; FUNDAMENTAL TRANSACTIONS.**

(a) Purchase Rights. In addition to any adjustments pursuant to Section 2 above, if at any time the Company grants, issues or sells any Options, Convertible Securities or rights to purchase stock, warrants, securities or other property pro rata to all or substantially all of the record holders of the Ordinary Shares or ADSs (the "**Purchase Rights**"), the Holder will be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which the Holder could have acquired if the Holder had held the number of ADSs acquirable upon complete exercise of this Warrant (without regard to any limitations on exercise hereof, including without limitation, the Maximum Percentage) immediately before the date on which a record is taken for the grant, issuance or sale of such Purchase Rights, or, if no such record is taken, the date as of which such record holders of Ordinary Shares or ADSs, as applicable, are to be determined for the grant, issue or sale of such Purchase Rights (provided, however, to the extent that the Holder's right to participate in any such Purchase Right would result in the Holder exceeding the Maximum Percentage, then the Holder shall not be entitled to participate in such Purchase Right to such extent (or beneficial ownership of any Ordinary Shares as a result of such Purchase Right to such extent) and such Purchase Right to such extent shall be held in abeyance for the Holder until such time, if ever, as its right thereto would not result in the Holder exceeding the Maximum Percentage).

(b) Fundamental Transactions. The Company shall not enter into or be party to a Fundamental Transaction unless (i) the Successor Entity assumes in writing all of the obligations of the Company under this Warrant and the Securities Purchase Agreement in accordance with the provisions of this Section 4(b) pursuant to written agreements in form and substance satisfactory to the Holder and approved by the Holder prior to such Fundamental Transaction, including agreements to deliver to the Holder in exchange for this Warrant a security of the Successor Entity evidenced by a written instrument substantially similar in form and substance to this Warrant, including, without limitation, which is exercisable for a corresponding number of shares of capital stock equivalent to the ADSs acquirable and receivable upon exercise of this Warrant prior to such Fundamental Transaction (or the Ordinary Shares underlying such ADSs), and with an exercise price which applies the exercise price hereunder to such shares of capital stock (but taking into account the relative value of the ADSs, or the Ordinary Shares underlying such ADSs, as applicable, pursuant to such Fundamental Transaction and the value of such shares of capital stock, such adjustments to the number of shares of capital stock and such exercise price being for the purpose of protecting the economic value of this Warrant immediately prior to the consummation of such Fundamental Transaction) and (ii) the Successor Entity (including its Parent Entity) is a publicly traded corporation whose common stock is quoted on or listed for trading on an Eligible Market; provided, however, that in connection with a Fundamental Transaction in which the consideration received by the Company and/or its shareholders, as applicable, consists solely of cash, this Warrant shall terminate upon the closing of such Fundamental Transaction to the extent not previously exercised provided that, contemporaneously with such Closing, the Company shall cause this Warrant to be exchanged, on and as of the closing thereof, without a requirement of formal exercise, for the consideration that Holder would have received (less the Exercise Price) had the Holder elected to exercise this Warrant in full as of immediately prior to the closing of such Fundamental Transaction. Upon the consummation of each Fundamental Transaction, unless this Warrant is exchanged for cash as provided in the preceding sentence, the Successor Entity shall succeed to, and be substituted for (so that from and after the date of the applicable Fundamental Transaction, the provisions of this Warrant and the Securities Purchase Agreement referring to the "Company" shall refer instead to the Successor Entity), and may exercise every right and power of the Company and shall assume all of the obligations of the Company under this Warrant and the Securities Purchase Agreement with the same effect as if such Successor Entity had been named as the Company herein. Upon consummation of each Fundamental Transaction, the Successor Entity shall deliver to the Holder confirmation that there shall be issued upon exercise of this Warrant at any time after the consummation of the applicable Fundamental Transaction, in lieu of the Warrant ADSs (or other securities, cash, assets or other property (except such items still issuable under Sections 3 and 4(a) above, which shall continue to be receivable thereafter)) issuable upon the exercise of this Warrant prior to the applicable Fundamental Transaction, such shares of publicly traded common stock (or its equivalent) of the Successor Entity (including its Parent Entity) which the Holder would have been entitled to receive upon the happening of the applicable Fundamental Transaction had this Warrant been exercised immediately prior to the applicable Fundamental Transaction, as adjusted in accordance with the provisions of this Warrant. In addition to and not in substitution for any other rights hereunder, prior to the consummation of each Fundamental Transaction pursuant to which holders of Ordinary Shares or ADSs are entitled to receive securities or other assets with respect to or in exchange for Ordinary Shares or ADSs (a "**Corporate Event**"), the Company shall make appropriate provision to ensure that the Holder will thereafter have the right to receive upon an exercise of this Warrant at any time after the consummation of the applicable Fundamental Transaction but prior to the Expiration Date, in lieu of the ADSs (or other securities, cash, assets or other property (except such items still issuable under Sections 3 and 4(a) above, which shall continue to be receivable thereafter)) issuable upon the exercise of the Warrant prior to such Fundamental Transaction, such shares of stock, securities, cash, assets or any other property whatsoever (including warrants or other purchase or subscription rights) which the Holder would have been entitled to receive upon the happening of the applicable Fundamental Transaction had this Warrant been exercised immediately prior to the applicable Fundamental Transaction. Provision made pursuant to the preceding sentence shall be in form and substance reasonably satisfactory to the Holder.

(c) Application. The provisions of this Section 4 shall apply similarly and equally to successive Fundamental Transactions and Corporate Events and shall be applied as if this Warrant (and any such subsequent warrants) were fully exercisable (provided that the Holder shall continue to be entitled to the benefit of the Maximum Percentage, applied however with respect to shares of capital stock registered under the Exchange Act and thereafter receivable upon exercise of this Warrant (or any such other warrant)).

5 **NONCIRCUMVENTION**. The Company hereby covenants and agrees that the Company will not, by amendment of its Articles of Association or other organizational documents, or through any reorganization, transfer of assets, consolidation, merger, scheme of arrangement, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, and will at all times in good faith carry out all the provisions of this Warrant and take all action as may be required to protect the rights of the Holder. Without limiting the generality of the foregoing, the Company (a) shall not increase the par value of any Ordinary Shares underlying the ADSs receivable upon the exercise of this Warrant above the Exercise Price then in effect and (b) shall take all such actions as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and non-assessable Ordinary Shares and ADSs upon the exercise of this Warrant.

6 **WARRANT HOLDER NOT DEEMED A STOCKHOLDER**. Except as otherwise specifically provided herein, the Holder, solely in its capacity as a holder of this Warrant, shall not be entitled to vote or receive dividends or be deemed the holder of share capital of the Company or a holder of ADSs for any purpose, nor shall anything contained in this Warrant be construed to confer upon the Holder, solely in its capacity as the Holder of this Warrant, any of the rights of a stockholder of the Company or any right to vote, give or withhold consent to any corporate action (whether any reorganization, issue of stock, reclassification of stock, consolidation, merger, conveyance or otherwise), receive notice of meetings, receive dividends or subscription rights, or otherwise, prior to the issuance to the Holder of the Warrant ADSs which it is then entitled to receive upon the due exercise of this Warrant. In addition, nothing contained in this Warrant shall be construed as imposing any liabilities on the Holder to purchase any securities (upon exercise of this Warrant or otherwise) or as a stockholder of the Company, whether such liabilities are asserted by the Company or by creditors of the Company. Notwithstanding this Section 6, the Company shall provide the Holder with copies of the same notices and other information given to the stockholders of the Company generally, contemporaneously with the giving thereof to the stockholders, unless such notices or other information is filed or submitted to the SEC and publicly available on the SEC's Electronic Data Gathering, Analysis, and Retrieval system.

7 **REISSUANCE OF WARRANTS.**

(a) Transfer of Warrant. If this Warrant is to be transferred, the Holder shall surrender this Warrant to the Company, whereupon the Company will forthwith issue and deliver upon the order of the Holder a new Warrant (in accordance with Section 7(d)), registered as the Holder may request, representing the right to purchase the number of Warrant ADSs being transferred by the Holder and, if less than the total number of Warrant ADSs then underlying this Warrant is being transferred, a new Warrant (in accordance with Section 7(d)) to the Holder representing the right to purchase the number of Warrant ADSs not being transferred.

(b) Lost, Stolen or Mutilated Warrant. Upon receipt by the Company of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant (as to which a written certification and the indemnification contemplated below shall suffice as such evidence), and, in the case of loss, theft or destruction, of any indemnification undertaking by the Holder to the Company in customary and reasonable form and, in the case of mutilation, upon surrender and cancellation of this Warrant, the Company shall execute and deliver to the Holder a new Warrant (in accordance with Section 7(d)) representing the right to purchase the Warrant ADSs then underlying this Warrant.

(c) Exchangeable for Multiple Warrants. This Warrant is exchangeable, upon the surrender hereof by the Holder at the principal office of the Company, for a new Warrant or Warrants (in accordance with Section 7(d)) representing in the aggregate the right to purchase the number of Warrant ADSs then underlying this Warrant, and each such new Warrant will represent the right to purchase such portion of such Warrant ADSs as is designated by the Holder at the time of such surrender; provided, however, no warrants for fractional ADSs shall be given.

(d) Issuance of New Warrants. Whenever the Company is required to issue a new Warrant pursuant to the terms of this Warrant, such new Warrant (i) shall be of like tenor with this Warrant, (ii) shall represent, as indicated on the face of such new Warrant, the right to purchase the Warrant ADSs then underlying this Warrant (or in the case of a new Warrant being issued pursuant to Section 7(a) or Section 7(b), the Warrant ADSs designated by the Holder which, when added to the number of shares of Warrant ADSs underlying the other new Warrants issued in connection with such issuance, does not exceed the number of Warrant ADSs then underlying this Warrant), (iii) shall have an issuance date, as indicated on the face of such new Warrant, which is the same as the Issuance Date, and (iv) shall have the same rights and conditions as this Warrant.

8 **NOTICES**. Whenever notice is required to be given under this Warrant, unless otherwise provided herein, such notice shall be given in accordance with Section 9(f) of the Securities Purchase Agreement. The Company shall provide the Holder with prompt written notice of all actions taken pursuant to this Warrant, including in reasonable detail a description of such action and the reason therefor. Without limiting the generality of the foregoing, the Company will give written notice to the Holder (a) immediately upon each adjustment of the Exercise Price and the number of Warrant ADSs, setting forth in reasonable detail, and certifying, the calculation of such adjustment(s) and (b) at least ten (10) days prior to the date on which the Company closes its books or takes a record (i) with respect to any dividend or distribution upon the Ordinary Shares or ADSs, (ii) with respect to any grants, issuances or sales of any Options, Convertible Securities or rights to purchase stock, warrants, securities or other property to all or substantially all of the holders of Ordinary Shares or ADSs or (iii) for determining rights to vote with respect to any Fundamental Transaction, dissolution or liquidation, provided in each case that such information shall be made known to the public prior to or in conjunction with such notice being provided to the Holder and (c) at least ten (10) Trading Days prior to the consummation of any Fundamental Transaction. To the extent that any notice provided hereunder constitutes, or contains, material, non-public information regarding the Company or any Subsidiary, the Company shall simultaneously file such notice with the SEC (as defined in the Securities Purchase Agreement) pursuant to a Report of Foreign Private Issuer on Form 6-K.

9 **AMENDMENT AND WAIVER**. Except as otherwise provided herein (including, without limitation, in the penultimate sentence of Section 1(g)(i)), the provisions of this Warrant may be amended and the Company may take any action herein prohibited, or omit to perform any act herein required to be performed by it, only if the Company has obtained the written consent of the Holder. The Holder shall be entitled, at its option, to the benefit of any amendment of any other similar warrant issued to an Additional Investor (as defined in the Securities Purchase Agreement). No waiver shall be effective unless it is in writing and signed by an authorized representative of the waiving party.

1 0 **SEVERABILITY**. If any provision of this Warrant is prohibited by law or otherwise determined to be invalid or unenforceable by a court of competent jurisdiction, the provision that would otherwise be prohibited, invalid or unenforceable shall be deemed amended to apply to the broadest extent that it would be valid and enforceable, and the invalidity or unenforceability of such provision shall not affect the validity of the remaining provisions of this Warrant so long as this Warrant as so modified continues to express, without material change, the original intentions of the parties as to the subject matter hereof and the prohibited nature, invalidity or unenforceability of the provision(s) in question does not substantially impair the respective expectations or reciprocal obligations of the parties or the practical realization of the benefits that would otherwise be conferred upon the parties. The parties will endeavor in good faith negotiations to replace the prohibited, invalid or unenforceable provision(s) with a valid provision(s), the effect of which comes as close as possible to that of the prohibited, invalid or unenforceable provision(s).

11 **GOVERNING LAW**. This Warrant shall be governed by, and construed in accordance with, the laws of the State of New York, without giving effect to the principles of conflicts of law (whether of the State of New York or any other jurisdictions) that would cause the application of the laws of any jurisdictions other than the State of New York. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in The City of New York, Borough of Manhattan, for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is brought in an inconvenient forum or that the venue of such suit, action or proceeding is improper. The Company hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address for such notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. Nothing contained herein shall be deemed or operate to preclude the Holder from bringing suit or taking other legal action against the Company in any other jurisdiction to collect on the Company's obligations to the Holder or to enforce a judgment or other court ruling in favor of the Holder. THE COMPANY HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE TO, AND AGREES NOT TO REQUEST, A JURY TRIAL FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION WITH OR ARISING OUT OF THIS WARRANT OR ANY TRANSACTION CONTEMPLATED HEREBY.

1 2 **CONSTRUCTION; HEADINGS**. This Warrant shall be deemed to be jointly drafted by the Company and the Holder and shall not be construed against any Person as the drafter hereof. The headings of this Warrant are for convenience of reference and shall not form part of, or affect the interpretation of, this Warrant. Terms used in this Warrant but defined in the Securities Purchase Agreement shall have the meanings ascribed to such terms on the Closing Date (as defined in the Securities Purchase Agreement) in the Securities Purchase Agreement unless otherwise consented to in writing by the Holder.

1 3 **REMEDIES, CHARACTERIZATION, OTHER OBLIGATIONS, BREACHES AND INJUNCTIVE RELIEF** . The remedies provided in this Warrant shall be cumulative and in addition to all other remedies available under this Warrant and the Securities Purchase Agreement, at law or in equity (including a decree of specific performance and/or other injunctive relief), and nothing herein shall limit the right of the Holder to pursue actual and consequential damages for any failure by the Company to comply with the terms of this Warrant. The Company covenants to the Holder that there shall be no characterization concerning this instrument other than as expressly provided herein. Amounts set forth or provided for herein with respect to payments, exercises and the like (and the computation thereof) shall be the amounts to be received by the Holder and shall not, except as expressly provided herein, be subject to any other obligation of the Company (or the performance thereof). The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Holder and that the remedy at law for any such breach may be inadequate. The Company therefore agrees that, in the event of any such breach or threatened breach, the holder of this Warrant shall be entitled, in addition to all other available remedies, to an injunction restraining any breach, without the necessity of showing economic loss and without any bond or other security being required. The Company shall provide all information and documentation to the Holder that is requested by the Holder to enable the Holder to confirm the Company's compliance with the terms and conditions of this Warrant (including, without limitation, compliance with Section 2 hereof). The issuance of shares and certificates for shares as contemplated hereby upon the exercise of this Warrant shall be made without charge to the Holder or such shares for any issuance tax or other costs in respect thereof, provided that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any certificate in a name other than the Holder or its agent on its behalf.

14 **TRANSFER**. This Warrant may not be offered for sale, sold, transferred or assigned without the consent of the Company, provided that no such consent shall be required in connection with any sale, transfer or assignment by the Holder to any of its Affiliates or any of its limited partners.

15 **CERTAIN DEFINITIONS**. For purposes of this Warrant, the following terms shall have the following meanings:

a) "**Bloomberg**" means Bloomberg, L.P.

b) "**Business Day**" means any day other than a Friday, Saturday, Sunday or other day on which commercial banks in The City of New York are authorized or required by law to remain closed.

c) "**Closing Sale Price**" means, for the ADSs as of any date, the last trade price for such security on the Principal Market, as reported by Bloomberg, or, if the Principal Market begins to operate on an extended hours basis and does not designate the closing trade price, then the last trade price of such security prior to 4:00:00 p.m., New York time, as reported by Bloomberg, or, if the Principal Market is not the principal securities exchange or trading market for such security, the last trade price of such security on the principal securities exchange or trading market where such security is listed or traded as reported by Bloomberg, or if the foregoing does not apply, the last trade price of such security in the over-the-counter market on the electronic bulletin board for such security as reported by Bloomberg, or, if no last trade price is reported for such security by Bloomberg, the average of the closing bid and ask prices of any market makers for such security as reported in the "pink sheets" by OTC Markets Group Inc. (formerly Pink Sheets LLC). If the Closing Sale Price cannot be calculated for a security on a particular date on any of the foregoing bases, the Closing Sale Price of such security on such date shall be the fair market value as mutually determined by the Company and the Holder. All such determinations shall, as applicable, be appropriately adjusted for any stock dividend, stock split, stock combination or other similar transaction during the applicable calculation period.

d) "**Convertible Securities**" means any stock, note, debenture or other security (other than Options) that is, or may become, at any time and under any circumstances, directly or indirectly, convertible into, exercisable or exchangeable for, or which otherwise entitles the holder thereof to acquire, any Ordinary Shares or ADSs.

e) "**Eligible Market**" means The New York Stock Exchange, the NYSE MKT, the Nasdaq Global Select Market, the Nasdaq Global Market or the Principal Market (including each successor to any of the foregoing).

f) "**Expiration Date**" means the date that is the third (3rd) anniversary of the Issuance Date or, if such date falls on a day other than a Business Day or on which trading does not take place on the Principal Market (a "**Holiday**"), the next date that is not a Holiday.

g) "**Fundamental Transaction**" means that (i) the Company (whether now existing or hereafter created or acquired) shall, directly or indirectly, in one or more related transactions, (1) consolidate or merge with or into (whether or not the Company is the surviving corporation) any other Person (unless the shareholders of the Company immediately prior to such consolidation or merger continue to hold a majority of the outstanding shares of the Company immediately following the consolidation or merger), or (2) sell, lease, license, assign, transfer, convey or otherwise dispose of all or substantially all of its properties or assets to any other Person, or (3) allow any other Person to make a purchase, tender or exchange offer that is recommended by the board of directors and accepted by the holders of more than 50% of the outstanding Ordinary Shares (or other voting securities) of the Company (not including any Ordinary Shares (or other voting securities) of the Company held by the Person or Persons making or party to, or associated or affiliated with the Persons making or party to, such purchase, tender or exchange offer) (subject to clause (ii) below, other than a special tender offer under the Israel Companies Law), or (4) consummate a stock or share purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with any other Person whereby such other Person acquires more than 50% of the outstanding Ordinary Shares (or other voting securities) of the Company (not including any Ordinary Shares (or other voting securities) of the Company held by the other Person or other Persons making or party to, or associated or affiliated with the other Persons making or party to, such stock or share purchase agreement or other business combination), or (5) reorganize, recapitalize or reclassify its Ordinary Shares, or (ii) any "person" or "group" (as these terms are used for purposes of Sections 13(d) and 14(d) of the 1934 Act and the rules and regulations promulgated thereunder) is or shall become, as a result directly or indirectly of any transaction to which the Company is a party, the "beneficial owner" (as defined in Rule 13d-3 under the 1934 Act), directly or indirectly, of 50% of the aggregate ordinary voting power represented by issued and outstanding Ordinary Shares (or other voting securities) of the Company.

h) "**Options**" means any rights, warrants or options to subscribe for or purchase Ordinary Shares, ADSs or Convertible Securities.

i) "**Parent Entity**" of a Person means an entity that, directly or indirectly, controls the applicable Person and whose common stock or equivalent equity security is quoted or listed on an Eligible Market, or, if there is more than one such Person or Parent Entity, the Person or Parent Entity with the largest public market capitalization as of the date of consummation of the Fundamental Transaction.

j) "**Person**" means an individual, a limited liability company, a partnership, a joint venture, a corporation, a trust, an unincorporated organization, any other entity or a government or any department or agency thereof.

k) "**Principal Market**" means the Nasdaq Capital Market.

l) "**Successor Entity**" means the Person (or, if so elected by the Holder, the Parent Entity) formed by, resulting from or surviving any Fundamental Transaction or the Person (or, if so elected by the Holder, the Parent Entity) with which such Fundamental Transaction shall have been entered into.

m) "**Trading Day**" means, as applicable, (i) with respect to all price determinations relating to the ADSs, any day on which the ADSs are traded on the Principal Market, or, if the Principal Market is not the principal trading market for the ADSs, then on the principal securities exchange or securities market on which the ADSs are then traded, provided that "Trading Day" shall not include any day on which the ADSs are scheduled to trade on such exchange or market for less than 4.5 hours or any day that the ADSs are suspended from trading during the final hour of trading on such exchange or market (or if such exchange or market does not designate in advance the closing time of trading on such exchange or market, then during the hour ending at 4:00:00 p.m., New York time) unless such day is otherwise designated as a Trading Day in writing by the Holder or (ii) with respect to all determinations other than price determinations relating to the ADSs, any day on which The New York Stock Exchange (or any successor thereto) is open for trading of securities.

[*signature page follows*]

IN WITNESS WHEREOF, RedHill BioPharma Ltd. has caused this Warrant to Purchase American Depositary Shares to be duly executed as of the Issuance Date set out above.

REDHILL BIOPHARMA LTD.

By: _____
Name:
Title:

EXHIBIT A

EXERCISE NOTICE
TO BE EXECUTED BY THE REGISTERED HOLDER TO EXERCISE THIS
WARRANT TO PURCHASE AMERICAN DEPOSITARY SHARES

REDHILL BIOPHARMA LTD.

The undersigned holder hereby exercises the right to purchase _____ of the American Depositary Shares ("**Warrant ADSs**") of RedHill Biopharma Ltd., a company limited by shares organized under the laws of the State of Israel (the "**Company**"), evidenced by Warrant to Purchase American Depositary Shares No. 1 (the "**Warrant**"). Capitalized terms used herein and not otherwise defined shall have the respective meanings set forth in the Warrant.

FORM OF EXERCISE PRICE. The Holder intends that payment of the Exercise Price shall be made as:

_____ a "Cash Exercise" with respect to _____ Warrant ADSs; and/or

_____ a "Cashless Exercise" with respect to _____ Warrant ADSs.

1 6 **PAYMENT OF EXERCISE PRICE** . In the event that the Holder has elected a Cash Exercise with respect to some or all of the Warrant ADSs to be issued pursuant hereto, the Holder shall pay the Aggregate Exercise Price in the sum of $_____ to the Company in accordance with the terms of the Warrant.

1 7 **EXEMPTION FROM REGISTRATION**. THE UNDERSIGNED REPRESENTS THAT, EITHER (A) THAT THE UNDERSIGNED IS NOT A "U.S. PERSON" (AS DEFINED IN RULE 902 UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE " **SECURITIES ACT**")) AND AT THE TIME OF THE THIS EXECUTION AND DELIVERY OF THIS EXERCISE NOTICE THE UNDERSIGNED WAS OUTSIDE OF THE UNITED STATES OR (B) THAT THE UNDERSIGNED IS AN "ACCREDITED INVESTOR" (AS DEFINED IN RULE 501 UNDER THE SECURITIES ACT), THAT THE WARRANT ADSS ARE BEING ACQUIRED FOR THE ACCOUNT OF THE UNDERSIGNED FOR INVESTMENT AND NOT WITH A VIEW TO, OR FOR RESALE IN CONNECTION WITH, THE DISTRIBUTION THEREOF AND THAT THE UNDERSIGNED HAS NO PRESENT INTENTION OF DISTRIBUTING OR RESELLING SUCH SHARES, ALL EXCEPT AS IN COMPLIANCE WITH APPLICABLE SECURITIES LAWS.

18 **DELIVERY OF WARRANT ADSS.**

_____ ISSUE A CERTIFICATE OR CERTIFICATES REPRESENTING SAID WARRANT ADSS IN THE NAME OF _____AND DELIVER SUCH CERTIFICATE OR CERTIFICATES TO _____ AT THE FOLLOWING ADDRESS:

_____
_____
_____

_____ DELIVER THE WARRANT ADSS IN UNCERTIFICATED FORM TO:

FIRM NAME AND DTC NUMBER: _____
ACCOUNT NAME AND NUMBER: _____

Date: _____ __, _____

_____
Name of Registered Holder

By: _____
Name:
Title:

EXHIBIT B

ACKNOWLEDGMENT

The Company hereby acknowledges this Exercise Notice and hereby directs The Bank of New York Mellon (the "**Depositary**") to issue the above indicated number of American Depositary Shares in accordance with the Depositary Instructions dated _____, 20__ from the Company and acknowledged and agreed to by the Depositary.

REDHILL BIOPHARMA LTD.

By: _____

Name:
Title:

EXHIBIT 4.19

[Translation from Hebrew]

FORM OF AGREEMENT

Made and executed in Tel Aviv this 13 day of January 2014

BETWEEN

Redhill BioPharma Ltd.
Public Company no. 51-430400-5
of 21 Ha'arbaah St.,
Tel Aviv 64739
(hereinafter: "**the Company**")

of the one part

AND

_____Ltd.,
Corporate no._____
of_____
(hereinafter: "**the Investor")**

of the other part

(The Company and the Investor will hereinafter jointly be called "**the Parties**")

WHEREAS: The Company is a public company as that term is defined in the Companies Law, 5759-1999 (hereinafter: "**the Companies Law**"), whose shares are listed for trading on the Tel Aviv Stock Exchange Ltd. (hereinafter: " **the TASE**") and Nasdaq, and is engaged in medication development and purchase; and

WHEREAS: The Investor has expressed its wish to invest in the Company Allotment Price (as that term is defined in clause 2.1 hereof) against a private placement of the Allotted Securities (as that term is defined in clause 2.1 hereof) subject as provided herein (hereinafter: "**the Allotment to the Investor**"); and

WHEREAS: The Company has expressed its agreement to effect the allotment transaction to the Investor subject as hereinafter provided; and

WHEREAS: The Parties wish to commit the terms of the transaction between them to writing, all pursuant as hereinafter described;

It is therefore agreed, declared and stipulated between the parties as follows:

1. Preamble, Appendices and clause headings

1.1 The preamble to this Agreement and the Appendices thereto constitute an integral part thereof.

1.2 The headings to the clauses in this Agreement are for ease of reference only, and do not nor shall they have any weight for the purpose of the interpretation of this Agreement.

1.3 In this Agreement, the following expressions shall bear the meanings set out opposite them, unless the content or the context otherwise requires:

"The Condition Precedent" -	The condition precedent specified in clause 4 hereof.
"Business Day"-	Any day on which most of the banks in Israel are open for the transaction of business, except for Fridays and Holiday Eves.
"Completion Day" —	One Business Day following the date on which the Condition Precedent shall be fulfilled.

2. The transaction

2.1 The Company shall, subject to the fulfilment of the Condition Precedent, allot to the Investor, on the Completion Date, by private placement, _____ NIS 0.01 (par value) ordinary shares of the Company (hereinafter: "**the Shares**") and _____ non-tradable options of the Company, realizable for the Company's shares (hereinafter: "**the Options**") in their condition "as is" (as they are, without any representation, declaration, undertaking or indemnity of any kind whatsoever in relation to the shares or the options and/or in relation to the Company having been made or received, save as expressly stated in this Agreement) (hereinafter: "**the Allotted Securities**"), in consideration of the aggregate sum of NIS _____ (NIS 3.90 for each allotted share). For the avoidance of any doubt, the Options will be allotted to the Investor without consideration but shall be subject to the transfer of the price in respect of the Allotted Shares and subject to the realization thereof into shares, will be made against the payment of the strike price (hereinafter: "**Allotment Price**"). The Allotted Securities will be allotted to the Investor free and clear of all and any debt, charge, attachment or other third-party right, with the exception of the blockage restrictions set out in clause 6 hereof.

2.2 The shares and the shares that will derive from a realization of the Options (hereinafter: "**the Realization Shares**"); the Allotted Securities, together with the realization shares will be hereinafter collectively called: "**the Compound Securities**"), will rank pari passu in regard to their rights with the existing NIS 0.1 (par value) shares of the Company in the Company's share capital, as from the date of the actual allotment of the shares or the Realization Shares, as appropriate.

2.3 The manner of the realization of the Options and the terms thereof are as set out in the Option Terms Letter, attached hereto as **Appendix A**.

2.4 Subject to the completion of the offering of the Allotted Securities under this Agreement, the Company undertakes that in the six-month period commencing from the date of the execution of this Agreement (hereinafter: "**the Relevant Period**"), the Company shall not be entitled to offer additional shares to investors unless the effective price per share in the additional offering shall be equal to or higher than NIS 3.455. The "**Effective Share Price**" – means the price at which the Company's shares will be allotted and in the case of a share offering together with the Allotted Options without consideration, then the value of the Option calculated according to the Black and Schultz model shall be reduced from the value of the share denoted in the allotment. It is clarified that the restriction detailed above in this clause shall apply to a share allotment to new investors only, either by way of private placement or public offering, and in no event shall apply it to: the allotment of shares to additional investors in tandem with the investment under this Agreement; an allotment of shares pursuant to an option plan to the Company's consultants, officers and employees; an allotment of shares deriving from a realization of existing options in the Company's share capital as of the date of this Agreement, and the like. Following the expiration of the Relevant Period, the Company may effect additional share offerings, without restriction.

3. <u>The Investor's declarations</u>

The Investor hereby undertakes and declares as follows:

3.1 The Investor is: (a) numbered amongst the class specified in the First Schedule to the Securities Law, 5728-1968 (hereinafter: "**Securities Law**") and its consent is hereby granted to the fact that it satisfies the conditions enumerated in the First Schedule to the Securities Law and is aware of the meaning of the fact that it falls within the definition of an investor contained in the First Schedule to the Securities Law and agrees thereto; (b) is purchasing the Compound Securities on its own behalf and not for purposes of distribution and is not active in the name or on behalf of any person or other entity, or on behalf of its customers, save on the conditions that have been permitted by the Securities Law and the Regulations promulgated thereunder;

3.2 It is aware and hereby acknowledges that the sale of the shares and the Allotment Shares will be made subject to the blockage provisions contained in section 15C of the Securities (Restrictions on resale of Securities) Law and the Regulations that have been promulgated thereunder (Securities (Particulars regarding Sections 15A to 15C of the Law) Regulations, 5760-2000)) and undertakes to act pursuant thereto and not to effect any act with such shares which will be regarded as an offering to the public of those shares;

3.3 It has the financial, economic and business ability and experience required to analyze the investment in the Compound Securities and address the risks and prospects of the transaction independently and to commit itself to the performance thereof, including the tax ramifications relating to the Compound Securities. The Investor acknowledges that the engagement under this Agreement is being made after having examined whatever it considered to be appropriate in connection with the Company and in connection with the offering of the Compound Securities;

3.4 The Compound Securities, to the extent they shall be allotted, will be allotted without any declaration, commitment, representation or indemnity on the part of the Company (as is) free and clear of all and any debt, attachment, charge or other third-party right and it shall have no claim or demand against the Company or its officers or shareholders or consultants or any person on behalf of any of the foregoing, in any aspect pertaining to the Company and its position and/or the Compound Securities or the information that is being given, if at all, in connection with the Company;

3.5 The Investor declares that: (a) it is not a U.S. Person (as defined in Regulation S – promulgated by virtue of the Securities Act of 1933 and (b) it is not purchasing the Compound Securities pursuant to the instructions of a U.S. Person or pursuant to the instructions of any person who is in the United States, is purchasing the Compound Securities pursuant to an investment decision taken in Israel, is not resident in the United States at the time of its engagement under this Agreement and/or on the date of the purchase of the Compound Securities, and that it is not purchasing the Compound Securities with any intention to effect a "distribution" in the United States (within the meaning of that term contained in the U.S. Securities Laws).

3.6 It is aware that the Compound Securities are being offered in a transaction that does not constitute an offering to the public in the United States (within the meaning of the U.S. Securities Act of 1933, as amended from time to time (hereinafter: "**the U.S. Law**")) and that the Compound Securities will not be presented for registration with the Securities Authority in the United States or any other securities authority of any other State in the United States and that the Compound Securities may not be offered or sold by law in the United States until after receipt of the validation of a Registration Statement pursuant to the provisions of the U.S. Law, or according to an exemption from the registration requirements in the United States or in the framework of a transaction which is not subject to the registration requirements of the U.S. Law and according to any binding securities laws in the relevant State in the United States.

3.7 The Investor is aware that it has been supplied within the framework of the negotiations, information that amounts to "insider information" (as defined in the Securities Law), and undertakes to keep confidential the information that it has received in connection with the Company that is other than public information, including information that is "insider information". The Investor is aware of the provisions of the law and the restrictions in all aspects pertaining to the prohibition of the use of insider information, and undertakes to comply with the provisions of such law. The Investor is aware that the Company may be required to publish an immediate report to the public in connection with this Agreement or in connection with the agreements reached with it in connection with the private placement.

3.8 The Investor hereby declares and undertakes that its engagement under this Agreement and the performance thereof has been approved by its competent organs and all required resolutions have been adopted in order to authorize the signatories to this Agreement in the name of the Investor and that subject to the fulfilment of the Condition Precedent, there is nothing by law or agreement to prevent it from entering into this Agreement and performing its obligations thereunder.

3.9 It is aware that the Company is entering into this Agreement with it, inter alia, in reliance on the representations set out above in this clause.

4. **Conditions precedent**

This Agreement will enter into effect subject to the fulfilment of the following Condition Precedent within 15 days of the date of the execution of this Agreement (hereinafter: "**the Condition Precedent**"): receipt of the TASE approval for the listing for trading of the shares and the Realization Shares.

The parties undertake to make every reasonable effort and reasonably collaborate to the extent required, for the purpose of fulfilling the Condition Precedent as speedily as possible.

The Investor will co-operate with and deliver all information that will be required to the Company for the purpose of fulfilling the reporting duties that apply to the Company by law, either in or outside of Israel, including to the Securities Authority and the TASE.

Should the Condition Precedent described above not be fulfilled within 15 days of the date of the execution of this Agreement and the Parties not have agreed in writing to extend that date, this Agreement shall lapse and be deemed to have been void *ab initio*, without either of the Parties or any person on their behalf having any claim or demand against the other.

5. **Completion of the transaction**

The Company undertakes to notify the Investor of the Completion Date, one Business Day at least before the date of the occurrence thereof.

The following acts will, as far as possible, concurrently, be effected on the Completion Date, subject to the fulfilment of the Condition Precedent:

5.1 The Investor will deposit in a special account that will be opened in the name of Poalim IBI – Management and Underwriting Ltd., (hereinafter: "**IBI**") in trust for the Company (details of which account to be delivered to the Investor by the Completion Date) the Allotment Price (hereinafter: "**the Special Account**");

5.2 Upon receipt of the Allotment Price in the Special Account, IBI will present to the Company evidence of the making of such deposit and the Company: (a) will allot the shares by way of a certificate in the name of the Nominees Company (the Bank Leumi Le Israel Nominees Company Ltd.,) (hereinafter: "**the Nominees Company**") and will transfer the certificate to the Nominees Company with instructions to credit the Special Account in respect of the shares and similarly will list the shares in the name of the Nominees Company in the Company's register of shareholders; (b) sign the option allotment letter and deposit the same in trust with IBI, and similarly register such options in the name of the Investor in the Company's option warrants register;

5.3 Up to and by no later than one Business Day following the deposit of these shares in the Special Account, IBI will effect the following acts, contemporaneously: (a) remit the Allotment Price to the Company's account (details of which will be delivered to IBI by the Completion Date); (b) transfer the shares to the Investor's account (details of which will be delivered to IBI by the Completion Date); (c) transfer the option allotment letter to the Investor or persons on his behalf, as instructed by the Investor.

6. **Stop or restriction on the effecting of dispositions with the shares**

The shares and the realization shares shall be subject to section 15C of the Securities Law and the Securities (Particulars regarding Sections 15A and 15C of the Law) Regulations, 5760-2000 (hereinafter: "**the Blockage Provisions**"), as existing from time to time.

7. **Taxes and other expenses**

Each Party will bear its own tax liability following the making of this Agreement and all the costs that are involved in its entering into and performing this Agreement.

8. **Miscellaneous**

8.1 This Agreement does not constitute a contract for the benefit of a third party and is not intended to confer any rights whatsoever on third parties.

8.2 The forbearance by either Party to exercise any right that is conferred upon it under this Agreement or at law, shall not be deemed to be a waiver on its part of such right and it shall be entitled to continue to exercising such rights in the future. The claim of estoppel or waiver shall not be available to the infringing party.

8.3 The terms of this Agreement fully incorporate the stipulations and agreements reached between the parties and prevail over any engagement, agreement, representation and undertaking which, if at all, preceded the signature of this Agreement, and which were made by the Parties, either in writing or verbally.

8.4 Should the date of the performance of any of the stages under this Agreement fall on a day other than a Business Day, such performance will be deferred until the next succeeding Business Day.

8.5 No modification, amendment or addition to this Agreement shall be of any effect and shall be deemed not to have made unless the same is made in writing and signed by the Parties jointly.

8.6 The Parties' addresses for the purpose of this Agreement are as set out at the head of this Agreement or such other address in Israel of either of the Parties on which notice in writing shall have been given to the counterparty of this Agreement.

8.7 No notices by either of the Parties relating to this Agreement shall be sent by personal delivery or by registered mail to its address stated above or by fax or e-mail and be deemed to have been delivered to the addressee on the date of actual service by personal delivery or after three days have elapsed following the date of the dispatch by registered mail, as stated above or on the first Business Day following the dispatch of the fax or e-mail, as the case may be.

To the Company:	To the Investor:
(a) Fax: 03-5413144	(b) Fax
(b) email: ori@redhillbio.com	(b) email:

8.8 The Parties may not assign or endorse or transfer any undertaking or right that they may have under this Agreement.

8.9 The law applicable to this Agreement shall be the law of the State of Israel and the jurisdiction with respect to the jurisdiction clause shall be the courts of the district of Tel Aviv only.

[Signatures on next page]

Signature Page – Investment Agreement – January 2014

The Company and the Investor signed this Agreement on the date appearing below

In witness whereof we have set our hands

Redhill BioPharma Ltd.

Dror Ben-Asher

Uri Shilo

Date: _____

The Investors

Date: _____

Redhill BioPharma Ltd.

This letter is of value

____ January, 2014

_____Ltd. (Corporate no._____)
_____
_____

Dear Sir / Madam,

RE: **Redhill BioPharma Ltd. - Option Warrants Allotment Letter**

Pursuant to the terms of the agreement signed between Redhill **BioPharma Ltd.,** (Reg. No. 51-430400-5) and **_____Ltd. (**hereinafter: "**the Investor**") on January 13, 2014, **_____** non-tradable option warrants of the Company are hereby allotted in the name of the Investor, realizable for **_____** NIS 0.01 (par value) ordinary shares of the Company, each, subject to adjustments, (hereinafter: "**Option Warrants**") according to the terms set forth in the Appendix annexed hereto.

The Option Warrants will be listed in your name in the Company's register of holders of the Option Warrants.

This letter is of value and should be retained.

The allotment of the Option Warrants hereunder (including the Appendices thereto) has been lawfully approved by the competent organs of the Company.

In witness whereof the parties have set their hands:

_____	_____
Dror Ben-Asher	**Uri Shilo,**
CEO	**Deputy CEO**
	Financial and Operations

Redhill BioPharma Ltd.

Appendix of the Terms of the Option Warrants

In this Appendix

"the Company"	-	Redhill BioPharma Ltd.
"the Nominees Company"	-	the Bank Leumi Le-Israel Nominees Company Ltd., (or such other nominees company as will replace it).
"the Offeree"	-	Sphera Global Healthcare Master Fund
"the *ex* date"	-	as that term is defined in the TASE Regulations, Part 3 (TASE Trading Guide).
"the Realization Date"	-	as defined in clause 4 hereof.
"Business Day"	-	any day on which most of the banks in Israel are open for the transaction of business, excepting Fridays and Holiday Eves.
"Option Warrant"	-	a non-tradable option warrant realizable for one NIS 0.01 (par value) ordinary share of the Company, subject to the adjustments contained in clause 7 hereof.
"**Share**" **or the Company's Share**"	-	a single NIS 0.01 (par value) ordinary share of the Company.
"Realization Shares"	-	Shares of the Company that will be allotted as a result of the realization of the Option Warrants.

"TAS"	-	Tel Aviv Stock Exchange Ltd.
"Dollar"	-	a United States dollar.
" the Base Rate"	-	the rate known on January 12, 2014 – namely - NIS 3.497 to the Dollar.
"Known Rate"	-	the representative rate of exchange of the Dollar compared with the Shekel, determined by the Bank of Israel and known at 9:00 on the particular day.
"Strike Rate"	-	the rate known on the Business Day on which the Realization Notice together with the Realization Proceeds (as those terms are defined in clause 4.2 hereof) have been received by the Company.

1. Strike Price of each Option Warrant

The strike price of each Option Warrant shall be NIS 4.90 per Share, subject to the adjustments contained in clause 7 hereof (hereinafter: "**Strike Price**"). The Strike Price shall be linked to the exchange rate of the Dollar compared with the Shekel, in a manner whereby if the Strike Rate shall be otherwise than the Base Rate, the Strike Price shall, as the case may be, increase or reduce, by the rate identical to the increase or the reduction rate of the Strike Rate compared with the Base Rate. It is clarified that in no event shall the Strike Price be less than 10 agorot per Share, after the adjustments described in clause 7 hereof, as required by the TASE Regulations, and the Rules by virtue thereof.

2. Realization Period and Realization of the Option Warrants

Each Option Warrant may be realized on any Business Day commencing from the date of the allotment thereof until the _____ day of January 2017 (hereinafter: "**the Realization Period**") and the last date for the realization being called: "**the Expiration of the Realization Period**") in a manner whereby each Option Warrant may be realizable for a single NIS 0.01 (par value) ordinary share of the Company (hereinafter: "**the Realization Shares**") against the payment of the Strike Price.

Notwithstanding the foregoing, the Option Warrant may not be realized on the operative date for – the distribution of bonus shares; a rights offer; the distribution of dividends; consolidation of share capital; split of capital or the reduction of share capital (each of the foregoing being hereinafter called: "**Corporate Event**"). In addition, to the extent the ex date of a Corporate Event shall fall prior to the operative date of a Corporate Event, the Option Warrant may not be realized on such ex date.

3. Lapse of Option Warrants

Option warrants not realized by the Expiration of the Realization Period, namely: an Option Warrant in respect of which the Realization Notice together with the Strike Price and the original allotment letter will not have been received by the Expiration of the Realization Period, shall confer no right on the Offeree and shall be null and void after such date, without the Offeree having the right to any compensation whatsoever from the Company.

4. Realization of the Option Warrants

4.1 Should the Offeree wish to realize all or a portion of the Option Warrants that it holds, it may do so, from time to time, during the currency of the Realization Period only, by giving Realization Notice in writing on a day being a Business Day.

4.2 The Realization Notice signed in the original by the Offeree will be presented to the Company by personal delivery at its office at the Platinum Building, 21 Ha'arbaah Street (16th floor), Tel Aviv, 64739 (or at such other address of the Company's registered office as notified by the Company by reporting using the *Electronic Proper Disclosure System* (magna) of the Securities Authority, by the Expiration of the Realization Period on the Option Realization Form attached hereto as **Appendix A**, accompanied by the original allotment letter/s relating to the Option Warrants that are comprised in the request (hereinafter: "**Realization Notice**"), and evidence of the execution of a bank transfer to the Company's bank account described in **Appendix B** hereto (or to such other bank account as will be notified by the Company to the Investor in writing and in advance) in the amount of the Strike Price in respect of each Option Warrant whose realization is requested by such Realization Notice (hereinafter: "**the Realization Proceeds**").

4.3 The Offeree may realize all or part of the Option Warrants that it holds, but no right to realize shall be granted for less than a whole number of Option Warrants.

4.4 If the Offeree wishes to realize only part of the Option Warrants that it holds, then, after the Offeree shall furnish to the Company at its registered office the Realization Notice accompanied by the original letter/s of allotment and the Realization Proceeds described above, the Company will transfer to the Offeree a new allotment letter in respect of the remaining Option Warrants that have yet to be realized by the Offeree.

4.5 The Offeree shall sign, whenever required to do so by the Company or by the Nominees Company, any additional document that is required pursuant to the provisions of law or the Company's articles of association in order to validate the allotment of the Realization Shares.

4.6 Should the Offeree fail to fulfil all of the conditions for realizing the Option Warrant then the Realization Notice will be deemed to be void and the allotment letters of the Options and the monies that were attached to the Realization Notice will be refunded to the Applicant.

4.7 The Company shall retain a sufficient number of ordinary shares of its registered capital to secure the realization rights of the Option Warrants.

"**Realization Date**" – means a Business Day on which the Realization Notice (accompanied by the Strike Price) has been received by the Company and in the event of the Realization Notice being received after 13:00, the Business Day following receipt of the Realization Notice (accompanied by the Strike Price) by the Company.

5. Allotment of the Realization Shares

The Company shall, by up to no later than seven Business Days of the Realization Date, allot the Realization Shares by a certificate in the name of the Nominees Company, subject and pursuant to the provisions of the TASE Regulations, for the time being existing, free and clear of all and any charges, pledges, attachments, levies, debts, liens, claims or other third-party right together with instructions to the Nominees Company to deposit the Realization Shares in the Offeree's account with a stock exchange member (whose details will be provided to the Company by the Realization Notice). The Option Warrants that have been realized will be deemed to be null and void as from the Realization Date.

6. Share rights deriving from a realization of the Option Warrants.

The rights attaching to the Realization Shares shall rank *pari passu* with the ordinary shares that shall exist in the Company's issued share capital on the date of the issue thereof. For the avoidance of any doubt it is clarified that the Realization Shares will not entitle the Offeree to any rights the operative date of which, according to the resolution of the Company's board of directors that will be adopted, is the Realization Date or a date preceding the Realization Date.

7. Adjustments

7.1 **Capital Consolidation or split** – if the Company consolidates its shares into shares of a larger nominal value, or sub-divides the same into shares of smaller denomination, the number of the Realization Shares that will be allotted following a realization of the Option Warrants will thereafter correspondingly reduce or increase.

7.2 **Distribution of dividend** – if the Company distributes dividend in cash during the Realization Period, then, in relation to the Option Warrants that have yet to be realized, the Strike Price shall be multiplied by the proportion which the Base Rate *ex dividend* bears to the closing price of the Company's shares on the TASE on the last trading date preceding the *ex dividend* date.

7.3 **Distribution of bonus shares** – in the event of a distribution of bonus shares during the Realization Period, the Offeree's rights shall be preserved in relation to the Option Warrants that have yet to be realized, so that the number of the Realization Shares will increase by the number of shares which the Offeree would have been entitled to as bonus shares, had it realized the Option Warrant.

7.4 **Rights issue** – if the Company offers to its shareholders securities of any class whatsoever by way of a rights issue during the Realization Period, then the number of the Realization Shares in respect of a realization of the Option Warrants that have yet to be realized will be adjusted to the benefit component of the rights as expressed in the proportion which the closing price of the share on the TASE on the last trading date preceding the *ex date* bears to the Base Rate of the share *ex* rights.

8. Fractional shares

Should the Company be required to allot fractional shares pursuant to that stated in this Appendix, the Company shall not allot fractional shares and the number of the shares that will be allotted by to the Offeree will be rounded to the nearest whole number.

9. Register of holders, transfer and split

The Company will keep and maintain at its registered office a register of holders of Option Warrants in which will be registered the names of the holders of the Option Warrants, including their addresses and the number of the Option Warrants that are listed in their name. All transfers of title to the Option Warrants will similarly be listed in the register. The Company may close the register from time to time for a period not exceeding three Business Days per month.

The Option Warrants may not be split, transferred or assigned in any manner whatsoever unless the Company has granted its prior written consent thereto, subject to the transferee undertaking, in the case of a transfer or assignment of the Option Warrants, towards the Company to assume all of the conditions and restrictions applying to the transferor.

10. Non-listing for trading of the Option Warrants

The Option Warrants are not and shall not be listed for trading on the TASE and/or on the TASE continuous institutional trading system and/or in any other regulated market.

11. Notices

All notices to the Offeree will be sent by registered mail to the address listed in the Register of Option Warrant holders, as existing in this Option Warrant Allotment Letter, and will be deemed to have been delivered within three Business Days from the date of the dispatch thereof.

12. Restrictions on realizing the Option Warrants and sale of the Realization Shares

12.1 The sale or transfer of the Realization Shares shall be subject to the resale restrictions prescribed in section 15C of the Securities Law, 5728-1968 (hereinafter – "**the Securities Law**") and the Regulations that have been promulgated by virtue thereof (including the Securities (Particulars for purposes of Sections 15A to 15C of the Law) Regulations, 5760-2000) (as an investor according to the provisions of section 15A (a) (7) of the Securities Law), in a manner whereby the Offeree is committed to act pursuant thereto and not to effect any action with the Realization Shares which could be regarded as an offer to the public of the Realization Shares.

12.2 The Realization Shares are being offered in a transaction that does not constitute an offer to the public in the United States, (within the meaning thereof as contained in the United States Securities Acts of 1933, (as amended from time to time) (hereinafter: "**the US Law**") and shall not be filed for registration with the US Securities Authority or any other securities authority of any State within the United States; and, therefore, the Realization Shares may not be offered or sold in the United States until after validation of a Registration Statement pursuant to the provisions of the US Law, or according to an exemption from the registration requirements in the United States or in the framework of a transaction which is not subject to the registration requirements according to the US Law; and according to all the obligatory securities laws in the relevant State in the United States.

13. Applicable law and jurisdiction

13.1 The Option Warrants and all matters relating thereto shall be subject to and to the interpretation of the laws of State of Israel.

13.2 The jurisdiction in all matters relating to the Option Warrants shall be vested in the relevant courts in the city of Tel Aviv Jaffa only and in no other court.

***

Appendix A – Form of Notice of Realization of Non-Tradable Option Warrants

Redhill BioPharma Ltd.
Platinum Building, 21 Ha'arbaah St.,
Tel Aviv, 64739

** **This Notice should be sent to this address by not later than 12:00 on the "Expiration of the Realization Period"** **

1. Pursuant to the Option Warrants Allotment Letter of the Company dated January _____, 2014, under which we were allotted _____ Option Warrants of the Company, and pursuant to the Appendix of the terms of the Allotment Letter of the Option Warrants (hereinafter jointly called: "**the Allotment Letter**"), we hereby realize _____ Option Warrants for _____ shares of the Company (hereinafter: "**the Realization Shares**").

2. The following documents are attached to this Realization Notice:

   a. The original Allotment Letter.

   b. Evidence concerning the making of an irrevocable bank transfer to the Company's account whose details appear in Appendix B to the Allotment Letter, in the sum of NIS _____ which is payment of the Strike Price in relation to the aggregate Option Warrants whose realization is requested in this Realization Notice. For the purpose of calculating the linkage of the Strike Price we have taken into account the representative rate of exchange of the Dollar compared with the Shekel as published by the Bank of Israel on the _____ day of _____, namely – NIS _____ per dollar.

3. We are aware that the Realization Shares will be registered in the name of the Nominees Company and we would request that they be deposited in a securities account in the Investor's name according to the following particulars:

   Name of TASE member/Bank: _____

   Branch no.: _____

   Accountholder: _____

   Account no. to be credied: _____

4. Realization of the Option Warrants is subject to all the terms and conditions specified in the Allotment Letter.

5. This Realization Notice is irrevocable and may not be revoked or changed.

6. The terms contained in this Realization Notice shall bear the meanings assigned thereto in the Allotment Letter, unless otherwise expressly stated.

7. The Investor hereby acknowledges that on the date of the signature of this Realization Notice and on the issue date of the Realization Shares in respect of this Realization Notice, the Investor is not nor shall it be in the United States or a resident of the United States (including an incorporated entity in the United States) – yes _____ / no _____ (*Please indicate*).

In witness whereof we have set our hands:

Signature: _____
Name: _____
Position: _____
Investor's Name: _____
Date: _____

Exhibit 12.1

CERTIFICATION BY CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Dror Ben-Asher, certify that:

1. I have reviewed this annual report on Form 20-F of RedHill Biopharma Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting;

5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: February 24, 2014

/s/ Dror Ben-Asher
Dror Ben-Asher
Chief Executive Officer

Exhibit 12.2

CERTIFICATION BY CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Ori Shilo certify that:

1. I have reviewed this annual report on Form 20-F of RedHill Biopharma Ltd..;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting;

5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: February 24, 2014

/s/ Ori Shilo

Ori Shilo
Deputy Chief Executive Officer Finance and Operations

Exhibit 13

CERTIFICATION BY CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of RedHill Biopharma Ltd. (the "Company") on Form 20-F for the period ended December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to such officer's knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 24, 2014

/s/ Dror Ben-Asher

Dror Ben-Asher
Chief Executive Officer

/s/ Ori Shilo

Ori Shilo
Deputy Chief Executive Officer Finance and Operations

EXHIBIT 15.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form F-3 (File No. 333-193503) and the Registration Statement on Form S-8 (File No. 333-188286) of RedHill Biopharma Ltd. (the "Company") of our report, dated February 24, 2014, relating to the financial statements of the Company, which appears in this Annual Report on Form 20-F.

Tel-Aviv, Israel
February 24, 2014

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