As filed with the Securities and Exchange Commission on October 24, 2013

Registration No. _____

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

FORM F-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Celsus Therapeutics PLC

(Exact name of registrant as specified in its charter)

The Laws of England and Wales	**2834**	**Not Applicable**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number)*

Celsus Therapeutics PLC
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(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date hereof.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box. ☒

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

CALCULATION OF REGISTRATION FEE[1]

Title of each class of securities to be registered	Amount to be registered[2]	Proposed maximum offering price per security	Proposed maximum aggregate offering price	Amount of registration fee[4]
Ordinary Shares, £0.01 par value per share [1]	27,264,086	$ 0.57[3]	$ 15,540,529[3]	$ 2,001.62

[1] The Ordinary Shares will be represented by American Depositary Shares ("ADSs"), each of which currently represents two Ordinary Shares. A separate Registration Statement on Form F-6 (Registration No. 333-185197) has been filed for the registration of ADSs evidenced by American Depositary Receipts issuable upon deposit of the Ordinary Shares.

[2] The registrant is registering for resale, from time to time, up to 27,264,086 Ordinary Shares representing (i) 21,958,302 Ordinary Shares sold by the registrant to certain accredited investors in a private placement consummated in September 2013 (the "September 2013 Financing"), (ii) up to 4,046,692 Ordinary Shares issuable by the registrant as a result of price protection provisions from investment agreements among the Company and previous investors that were triggered by the September 2013 Financing, and (iii) an additional 1,259,092 Ordinary Shares issuable upon exercise of outstanding warrants as a result of anti-dilution adjustments in such warrants. In the event of stock splits, stock dividends, or similar transactions involving the Ordinary Shares, the number of securities registered shall, unless otherwise expressly provided, automatically be deemed to cover the additional securities to be offered or issued pursuant to Rule 416(a) promulgated under the Securities Act of 1933, as amended (the "Securities Act").

(3) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457 under the Securities Act. The price per share and aggregate offering price are based on the original sale price of the registrant's Ordinary Shares in the September 2013 Financing.

(4) Calculated pursuant to Rule 457(o) based on an estimate of the proposed maximum aggregate offering price.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PRELIMINARY PROSPECTUS

SUBJECT TO COMPLETION, DATED OCTOBER 24, 2013

CELSUS THERAPEUTICS PLC

27,264,086 Ordinary Shares

This prospectus relates to the resale, by the Selling Shareholders identified herein (the "**Selling Shareholders**") of up to 27,264,086 ordinary shares, par value £0.01 per share ("**Ordinary Shares**"), represented by American Depository Shares, or ADSs, in the ratio of two Ordinary Shares to one ADS. The Ordinary Shares represented by ADSs that may be offered for sale by the Selling Shareholders pursuant to this prospectus represent (i) 21,958,302 Ordinary Shares sold by the registrant to certain accredited investors in a private placement consummated in September 2013 (the "**September 2013 Financing**"), (ii) up to 4,046,692 Ordinary Shares issuable by the registrant as a result of price protection provisions from investment agreements among us and previous investors that were triggered by the September 2013 Financing, and (iii) an additional 1,259,092 Ordinary Shares issuable upon exercise of outstanding warrants as a result of anti-dilution adjustments in such warrants.

See "Private Placement Financing" for a description of the transaction documents relating to such financing and see "Selling Shareholders" for additional information regarding the investors who may resell their securities pursuant to this prospectus. We will not receive any proceeds from the sale by the Selling Shareholders of Ordinary Shares or ADSs.

Our ADSs are presently quoted for trading on the OTCQB and OTC Bulletin Board under the symbol "CLSXY". Our securities are not currently eligible for trading on any national securities exchange, including the NASDAQ Stock Market. We cannot assure you that our securities will become eligible for trading on any exchange. The Selling Shareholders may sell all or a portion of their Ordinary Shares represented by ADSs through public or private transactions at prevailing market prices or at privately negotiated prices.

We may amend or supplement this prospectus from time to time by filing amendments or supplements as required. You should read the entire prospectus and any amendments or supplements carefully before you make your investment decision.

We are an "emerging growth company" as defined under the federal securities laws, and, as such, are eligible for reduced public company reporting requirements. See "Prospectus Summary—Implications of Being an Emerging Growth Company."

Investing in our securities involves a high degree of risk. See "Risk Factors" beginning on page 8 of this prospectus to read about factors you should consider before investing in our securities.

Neither the U.S. Securities and Exchange Commission nor any state or other foreign securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is _____, 2013

You should rely only on the information contained in this prospectus and any free writing prospectus prepared by or on our behalf. We have not, and the Selling Shareholders have not, authorized anyone to provide you with information different from that contained in this prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. We are not offering to sell or solicit any security other than the securities offered by this prospectus. In addition, we are not offering to sell, or solicit, nor are the Selling Shareholders seeking an offer to buy, any securities to or from any person in any jurisdiction where it is unlawful to make this offer to or solicit an offer from a person in that jurisdiction. The information contained in this prospectus is accurate as of the date on the front of this prospectus only, regardless of the time of delivery of this prospectus or of any sale of our securities. Our business, financial condition, results of operations and prospects may have changed since that date.

We have obtained the statistical data, market data and other industry data and forecasts used throughout this prospectus from publicly available information. We have not sought the consent of the sources to refer to the publicly available reports in this prospectus.

In this prospectus, "Celsus," the "Company," "we," "us," and "our" refer to Celsus Therapeutics PLC and its subsidiaries, unless the context otherwise requires.

All trademarks, trade names or service marks that are used in this prospectus are the property of their respective owners.

CELSUS THERAPEUTICS PLC

Table of Contents

SUMMARY

This summary highlights certain information about us, this offering and information appearing elsewhere in this prospectus and in the documents we incorporate by reference. This summary is not complete and does not contain all of the information that you should consider before investing in our securities. After you read this summary, to fully understand this offering and its consequences to you, you should read this entire prospectus carefully, including the information referred to under the heading "Risk Factors" in this prospectus beginning on page 8, and the financial statements and related notes that we incorporate by reference into this prospectus.

Our Business

Celsus Therapeutics PLC is a biopharmaceutical company dedicated to the discovery and development of novel, first-in-class, non-steroidal, synthetic anti-inflammatory drugs. We recently changed our corporate name from Morria Biopharmaceuticals PLC to Celsus Therapeutics PLC and received shareholder approval at our annual general meeting in June 2013. We believe that we have created a new class of synthetic drugs that we term Multifunctional Anti-Inflammatory Drugs representing a new multi-drug platform for the treatment of a wide range of inflammatory diseases and conditions. For decades, steroids have been the most commonly used anti-inflammatory drugs in the world, used extensively to treat inflammatory diseases and allergies. However, steroids are associated with severe side effects, such as metabolic changes, weight gain, changes in blood pressure, diabetes, osteoporosis, cataract and glaucoma, psychosis and depression. These side effects have led to reluctance by the Federal Drug Administration, or FDA, medical providers and their patients to use these drugs, providing an unmet need in multiple disease markets for safer alternatives to steroids.

In general, inflammation is a defense mechanism (part of our immune system) protecting our bodies from infection. However, when inflammation is triggered for the wrong reasons (i.e., not as a reaction to infection) or is unable to shut down, this results in an inflammatory disease. Since each organ in the body is capable of protecting itself from infections using inflammation, each organ can suffer from an inflammatory disease or condition such as allergies.

Inflammatory diseases therefore manifest in a wide range of symptoms, affecting any organ in the body and have diverse causes. Inflammatory diseases encompass such diverse diseases as respiratory diseases (e.g. allergic rhinitis, asthma, and chronic obstructive pulmonary disease (COPD)), chronic gastrointestinal diseases (e.g. Crohn's disease and ulcerative colitis), skin inflammations (e.g. dermatitis, eczema, psoriasis and rosacea), cardiovascular diseases (e.g. restenosis, thrombosis and acute cardiovascular syndrome), diseases of the eye (e.g. dry eye, uveitis, and conjunctivitis), diseases such as arthritis and related diseases (e.g. osteo-arthritis and rheumatoid-arthritis), autoimmune disorder (e.g. Lupus, Wegeners, and dermatomyositis), and disease of the central nervous system (e.g. multiple sclerosis). However, while the causes and symptoms of these diseases are diverse, their treatment is often the same: anti-inflammatory drugs.

Product Candidates

We currently have two novel product candidates in our clinical pipeline, both of which have completed first-in-patient clinical studies (Phase 2a): MRX-4, a nasal spray for treating allergic rhinitis (or hay fever), and MRX-6, a topical cream for treating contact dermatitis (a common type of eczema). The Phase 2a clinical trial for MRX-4 was conducted under The International Conference on Harmonisation of Technical Requirements for Registration of Pharmaceuticals for Human Use, or ICH, rules, which comply with the FDA's rules. At this time, we do not plan additional trials in allergic rhinitis. The Phase 2a clinical trial for MRX-6 was conducted as an academic study and, thus, is neither ICH- or FDA-compliant. A second, multi-center, vehicle controlled, double blind, dose ranging study of MRX-6 study is currently underway in Israel. Results for the first part of this study were reported on May 8, 2013. These results demonstrated that MRX-6 was a safe and effective treatment for chronic hand eczema secondary to contact dermatitis, replicating the results we saw in our earlier Phase IIa trial. The data announced on May 8 were interim results from the first cohort (2% MRX-6 vs. vehicle) of a multi-center Phase II double blind, two step dose-ranging, vehicle and active control study of MRX-6 for the treatment of patients with chronic hand eczema due to allergic contact dermatitis (ACD). The results showed a 56% improvement in symptoms (dryness, scaling, redness, pruritus and fissures) from baseline in the MRX-6 treated hand/forearm, compared to a 24% improvement for vehicle ("placebo") treated hand/forearm ($p < 0.0001$). Each patient acted as his or her own control. Clinically significant benefit, defined as a $\geq 50\%$ reduction in symptoms from baseline in the MRX-6 treated hand/forearm was seen in 67% of patients. MRX-6 was found to be safe and well-tolerated, with no adverse events. The benefit was similar regardless of patient baseline score, study center or symptom sub-score.

We may also undertake, depending on available resources, pre-clinical studies for three other product candidates: OPT-1 (for the treatment of conjunctivitis and dry eye; MRX-5 (for the treatment of inflammatory bowel disease); and CFX-1 (for the treatment of cystic fibrosis). Given the common biochemical mechanism of all inflammatory diseases, we plan to gradually expand the application of our platform technology for our product candidates to other forms of inflammatory diseases in the future, such as arthritis and related diseases (osteoarthritis and rheumatoid-arthritis).

Our corporate headquarters are located at 53 Davies Street, London W1K 5JH, United Kingdom, telephone + **44-203-322-1321**, and our registered office is located at 42-46 High Street, Esher, Surrey KT109QY, United Kingdom.

Our Business Strategy

Our business strategy is to expand and build our biopharmaceutical business to gradually focus on a spectrum of inflammatory diseases based on our current and upcoming first in class product candidates, that we believe will fill the current unmet need for safe and potent alternatives to steroids. As a drug development company, most of our efforts and resources to-date have been devoted to performing research and development, conducting pre-clinical studies and clinical trials, developing and protecting our intellectual property and raising capital. We intend to enter into strategic licensing arrangements with pharmaceutical companies for the commercialization of our drugs. This process will involve completing our clinical trials and obtaining regulatory approvals for manufacturing, marketing, distribution and sale of our drugs. We also intend to continue to expand the range of our products by gradually targeting additional types of inflammatory diseases.

We currently perform our research and development activity mainly through outsourcing to subcontractors. Our board of directors, which consists of recognized professionals in the fields of biology, medicine and finance, regularly approves our material contracts with subcontractors.

Our unique lead product candidates are first-in-class, novel, non-steroidal, synthetic anti-inflammatory products that address the need to inhibit sPLA2 in a broad-ranged manner while avoiding any interference with the homeostatic cPLA2 family. The lipid inhibiting moiety is responsible for inhibiting PLA2 in a unique and broad-ranged manner while the glycosaminoglycans, or GAGs, prevent the drug's penetration into the cell and any possible interference with cPLA2. Thus, unlike previous attempts at inhibiting PLA2, our product candidates remain on the cell surface and target the pathology-associated secretory PLA2 isomers (sPLA2), but do not interfere with the homeostatic isomers found inside the cell (cytosolic, cPLA2).

Steroids and Currently Available Alternatives

Steroids are the most commonly prescribed medications for inflammatory diseases because of their high potency and unparalleled formulation flexibility but are limited by their side effects that include hypertension, high glucose levels, obesity, brittle bones/osteoporosis, immunosuppression, glaucoma and psychosis. Thus, safer yet potent alternatives to steroids have long been sought to provide this unmet need. However, current alternatives to steroids, while often commercially successful, are less potent than steroids, have limited formulation flexibility and have their own potential safety concerns that relate to the risk of systemic corticosteroid absorption and include adrenal suppression, bone fracture among the elderly, altering the immune system, cancer, and reduced bone growth and height in children. Adverse local effects may include nosebleeds, stinging, burning and dryness.

We believe that our product candidates will provide safer and more effective treatment than the current alternatives to steroids without the adverse side effects associated with steroids.

The drugs used to treat inflammatory diseases are broadly divided into two groups: steroids and non-steroidal drugs. Non-steroidal drugs, in turn, can be categorized into synthetic drugs, which include our product candidates, and biological drugs (such as monoclonal anti-body therapies).

Non-steroid synthetic drugs include the old generation of non-specific COX inhibitors, such as ibuprofen and Aspirin™ (possibly the most commonly used drug in the world), and a newer generation of specific inhibitors of COX-2, such as Celebrex® and Vioxx®. COX inhibitors are drugs that inhibit the action of the COX enzyme, which is responsible for producing factors that produce inflammation. The old generation of COX inhibitors is associated with severe gastrointestinal adverse effects. The newer generation of specific COX-2 inhibitors, originally designed to be safer, has subsequently been found to have side effects, including primarily cardiovascular complications. These side effects have led to the withdrawal the drug Vioxx® from the market and specific warnings for its related drug Celebrex™.

Non-steroid biological drugs are used to treat severe cases of inflammation. These drugs are derived from proteins, i.e., they are produced from live cells and not by way of artificial chemical synthesis. Examples of this type of drug are Enbrel® and Remicade®, which are used for treating severe rheumatoid arthritis and psoriasis as well as inflammatory bowel disease. These drugs have a number of disadvantages: the drug intake is limited to injection/IV, their cost is very high and they are associated with rare but severe side effects.

Market opportunity in inflammatory diseases

The term “inflammatory diseases” applies to a super-family of diseases and conditions comprising the largest such group with hundreds of distinct diseases. These include autoimmune diseases, allergies, reactions to infections and tissue breakdown, hereditary diseases as well as diseases of unknown etiology. Increasingly, many cancerous processes such as angiogenesis are also being linked to inflammation. Names of inflammatory diseases typically have the suffix “- itis “(e.g. bronchitis, appendicitis, dermatitis) but many other do not (e.g. asthma, psoriasis, lupus, etc.). According to a published report by GBI Research, the global drug market for inflammatory diseases was approximately $57 billion in 2010. Furthermore, IMS, a prescription tracking service, recorded over 200 million retail prescriptions in the United States for corticosteroids in 2012.

MRX-6 and the market for dermatitis (eczema)

MRX-6 is a topical cream aimed at treating eczema (with the first indication being contact dermatitis). There is a wide variety of medical conditions that fall under the broad definition of dermatitis/eczema, including contact dermatitis, atopic dermatitis and seborrhea dermatitis. The first is an allergy, the second is of unknown etiology but probably autoimmune in nature and the last is an abnormal reaction to normal skin flora. All forms of eczema may cause discomfort, pain and embarrassment to the person affected. The incidence of atopic dermatitis, for example, has increased significantly over the past 30 years in the industrialized world, probably due to environmental factors.

The drugs for treating mild to moderate dermatitis can be divided into two primary groups: topical steroids, which are the most common treatment for dermatitis, and topical calcineurin inhibitors TCI) such as Elidel® and Protopic®.

According to Eczema Therapeutics - Pipeline Assessment and Market Forecasts to 2018 by GlobalData, a leading market research company, the total volume of the market was estimated to be approximately $2.0 billion for 2010. Again, per IMS, the prescription tracking service, over 38 million retail prescriptions were written for topical corticosteroids in 2012.

Development of our Clinical Pipeline for our Product Candidates

We currently have two product candidates in clinical development for the treatment of dermatitis and allergic rhinitis, respectively. In addition, we are in the pre-clinical stages of developing three product candidates for: ophthalmology (conjunctivitis and dry eye), cystic fibrosis and inflammatory bowel disease (IBD).

We are currently conducting a Phase 2 clinical trial of our lead product candidates MRX-6, a topical cream for dermatitis, in. We anticipate submitting an application for the FDA's Investigational New Drug, or IND, program for MRX-6 by the end of 2014 and completing additional supportive clinical trials of MRX-6 in Israel during 2014. If these applications are approved, we intend to seek licensing arrangements with international pharmaceutical companies.

We do not plan further clinical trials with MRX-4 in allergic rhinitis at this time.

We have also initiated a number of preclinical studies for the development of drugs for inflammatory eye diseases (OPT-1), inflammatory bowel disease (MRX-5), and cystic fibrosis (CFX-1). Depending on available resources, we intend to conduct such studies throughout 2013 and 2014; OPT-1 pre-clinical studies planned to take place during 2013 and 2014 include synthesizing and formulating the drug, conducting safety studies and animal model optimization screening. MRX-5 and CFX-1 pre-clinical studies are potentially intended to take place beginning in the first half 2014, in which we intend to synthesize and formulate the drugs, conduct safety studies and animal model optimization screening.

No treatment emergent side effects were observed for any of the trials performed. All side effects recorded shared the same prevalence as the placebo group and do not therefore result from treatment with the specific drug.

Competition

The development and commercialization of new drugs is highly competitive. We will face competition with respect to all product candidates we may develop or commercialize in the future from pharmaceutical and biotechnology companies worldwide. The key factors affecting the success of any approved product will be its efficacy, safety profile, drug interactions, method of administration, pricing, reimbursement and level of promotional activity relative to those of competing drugs. If approved, we would expect our clinical-stage product candidates, MRX-4 and MRX-6, to compete with approved drugs and potentially with product candidates currently under development, including the following:

- *MRX-4.* If approved, we would expect MRX-4 to compete in the hay fever drug market with nasal sprays that contain steroids (Flixonase®, Beconase®, Nasacort®, Rhinocort® and the drug Singulair®, which is a non-steroidal, anti-inflammatory pill. The leading companies in the field include Merck (the manufacturer of Singulair®), GlaxoSmithKline (the manufacturer of Flixonase® and Beconase®), Sanofi (the manufacturer of Nasacort) and AstraZeneca (the manufacturer of Rhinocort). According to Datamonitor, the total market, as of its 2011 report, is approximately $7 billion, and is mostly dominated by nasal sprays.

- *MRX-6.* If approved, we would expect MRX-6 to compete in the dermatitis drug market is with skin ointments that contain steroids (Hydrocortisone®, Fluticasone®, Betamethasone® and the drugs Elidel® and Protopic®, which are non-steroidal anti-inflammatory ointments. The leading companies in the market include Galderma, Medicis and Novartis (the manufacturer of Elidel®). According to GlobalData, the total volume of the market, as of its 2011 report, is approximately $2 billion, and expected to grow at a CAGR of 8.2% to $3.8bn in 2018.We believe that Anthera Pharmaceuticals, Inc. and Ziarco Pharma, Ltd. are the only other companies that are or were recently focused on the phospholipase A2 pathway like Celsus. Anthera is a biopharmaceutical company focused on developing and commercializing products to treat serious diseases, including cardiovascular and autoimmune diseases. It has in-licensed a portfolio of clinical and pre-clinical inhibitors of PLA2 and is developing an in-licensed drug from Eli Lilly and Shinogi & Co., which they developed as part of their collaboration. Anthera's drug candidates are entirely different in both structure (chemical class) and function to Celsus's product candidates. Ziarco is pursuing the development of cytosolic PLA2 inhibitors, a different segment in the PLA2 pathway and Ziarco's candidates are entirely different in both structure (chemical class) and function to Celsus's product candidates. Other companies, such as Anacor Pharmaceuticals, are pursuing other drugs and pathways to treat dermatitis.

Implications of Being an Emerging Growth Company

Pursuant to The Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"), we are classified as an "Emerging Growth Company." Under the JOBS Act, Emerging Growth Companies are exempt from certain reporting requirements, including the auditor attestation requirements of Section 404(b) 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. We are also exempt from certain other requirements, including the requirement to adopt certain new or revised accounting standards until such time as those standards would apply to private companies.

Pursuant to the JOBS Act, we will remain an Emerging Growth Company until the earliest of:

- the last day of our fiscal year following the fifth anniversary of the date of our initial public offering of common equity securities;
- the last day of our fiscal year in which we have annual gross revenue of $1.0 billion or more;
- the date on which we have, during the previous three-year period, issued more than $1.0 billion in non-convertible debt; and
- the date on which we are deemed to be a "large accelerated filer," which will occur at such time as we (a) have an aggregate worldwide market value of common equity securities held by non-affiliates of $700 million or more as of the last business day of our most recently completed second fiscal quarter, (b) have been required to file annual and quarterly reports under the Exchange Act for a period of at least 12 months, and (c) have filed at least one annual report pursuant to the Exchange Act.

THE OFFERING

The following is a brief summary of some of the terms of the offering and is qualified in its entirety by reference to the more detailed information appearing elsewhere in this prospectus. For a more complete description of the terms of the offering, see the "Private Placement Financing" section in this prospectus.

Issuer	Celsus Therapeutics PLC
Ordinary Shares outstanding as of October 23, 2013	40,227,953 Ordinary Shares
Securities offered by the Selling Shareholders	Up to 27,264,086 Ordinary Shares represented by ADSs, in the ratio of two Ordinary Shares to one ADS. The Ordinary Shares represented by ADSs that may be offered for sale by the Selling Shareholders pursuant to this prospectus represent (i) 21,958,302 Ordinary Shares sold by the registrant to certain accredited investors in a private placement consummated in the September 2013 Financing, (ii) up to 4,046,692 Ordinary Shares issuable by the registrant as a result of price protection provisions from investment agreements among the Company and previous investors that were triggered by the September 2013 Financing, and (iii) an additional 1,259,092 Ordinary Shares issuable upon exercise of outstanding warrants as a result of anti-dilution adjustments in such warrants.
Selling Shareholders	See "Selling Shareholders" below on page 109 of this prospectus.

Offering Price	The Selling Shareholders may sell all or a portion of their ADSs through public or private transactions at prevailing market prices or at privately negotiated prices.
Use of proceeds	We will not receive any proceeds from the sale of the ADSs by the Selling Shareholders. However, we may receive gross proceeds from the cash exercise of Warrants held by certain of the Selling Shareholders. Such proceeds will be used for clinical project development, working capital and general corporate purposes. See "Use of Proceeds" on page 36 of this prospectus.
Market for our ADSs	An active market may never develop for our securities. Our ADSs are presently quoted for trading on the OTCQB and OTC Bulletin Board under the symbol "CLSXY". In the future, we intend to seek to have our ADSs listed on a national securities exchange. However, we may not be successful in having our ADSs listed on a national securities exchange.
Risk factors	Before investing in our Ordinary Shares or ADSs, you should carefully read and consider the "Risk Factors" beginning on page 8 of this prospectus.
Depositary	Deutsche Bank Trust Company Americas

SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data as of June 30, 2013 and 2012 have been derived from our unaudited consolidated financial statements and notes thereto prepared in accordance with United States GAAP, or GAAP, and for the fiscal years December 31, 2012 and 2011 and for the fiscal years ended December 31, 2012, 2011 and 2010 have been derived from our audited consolidated financial statements and notes thereto prepared in accordance with United States GAAP, or GAAP, included elsewhere in this registration statement on Form F-1. The selected consolidated financial data as of December 31, 2009 and 2008 and for the fiscal year ended December 31, 2008 has been derived from our unaudited consolidated financial statements which are not included in this registration statement on Form F-1. Our historical results are not necessarily indicative of results to be expected for future periods.

The selected consolidated financial data set forth below should be read in conjunction with, and are entirely qualified by reference to our audited consolidated financial statements and the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this registration statement.

BALANCE SHEET DATA	**As of June 30,**		**As of December 31,**				
(In United States Dollars in $000's)	**2013**	**2012**	**2008**	**2009**	**2010**	**2011**	**2012**
Total current assets	64	550	$ 147	$ 15	$ 34	$ 27	$ 1,118
Total assets	64	550	149	15	34	27	1,120
Total current liabilities	3,260	2,054	730	805	1,222	2,236	3,850
Total liabilities	5,091	2,977	1,407	1,716	2,038	2,512	4,480
Working capital (deficit)	(3,196)	(1,504)	(583)	(790)	(1,188)	(2,209)	(2,732)
Capital stock	258	229	206	213	216	225	245
Shareholders' deficiency	(5,027)	(2,427)	(1,258)	(1,701)	(2,004)	(2,485)	(3,360)

INCOME STATEMENT DATA

(In United States Dollars in $000's, except for per share data)	As of June 30, 2013	2012	As of December 31, 2008	2009	2010	2011	2012
Research and development	$ 831	$ 179	$ 1,018	$ 159	$ 247	$ 841	$ 1,483
General and administrative	870	1,078	734	449	545	1,406	2,184
Total operating expenses	1,701	1,257	1,752	608	792	2,247	3,667
Financial expense (income), net	995	118	(317)	404	(117)	(128)	601
Net Loss	2,696	1,375	1,435	1,012	675	2,119	4,268
Net basic and diluted loss per share	$ (0.19)	$ (0.12)	$ (0.13)	$ (0.09)	$ (0.06)	$ (0.18)	$ (0.35)
Weighted average number of Ordinary Shares	13,978,994	12,179,707	10,946,573	11,244,002	11,420,369	11,920,562	12,458,874

OTHER FINANCIAL DATA

(In United States Dollars in $000's)	As of June 30, 2013	2012	Year ended December 31, 2008	2009	2010	2011	2012
Net cash used in operating activities	$ (1,399)	$ (775)	$ (1,233)	$ (508)	$ (366)	$ (1,008)	$ (2,134)
Net cash provided by financial activities	296	1,308	69	499	372	1,005	3,232

RISK FACTORS

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

Risks Relating to Our Financial Position and Our Business

We anticipate that we will incur losses for the foreseeable future and we may never achieve or sustain profitability.

We do not expect to generate revenue or profitability that is necessary to finance our operations in the short term. We incurred losses of $2,696,000 and $1,375,000 for the six months ended June 30, 2013 and 2012, respectively, and $4,268,000, $2,119,000 and $675,000 for the years ended December 31, 2012, 2011 and 2010, respectively. In addition, our accumulated deficit as of June 30, 2013 and December 31, 2012 was $19,618,000 and $16,922,000, respectively. We expect to continue to incur significant research and development and other significant operating expenses and capital expenditures and anticipate that we will continue to have significant expenses and losses in the foreseeable future as we:

- conduct our Phase 2 clinical trials of MRX-6 for dermatitis and initiate additional clinical trials, if supported by the results of such trials;
- conduct the synthesis and formulation of MRX-6;
- conduct preclinical toxicology and absorption, distribution, metabolism and excretion, or ADME, studies for MRX-6;
- conduct preclinical studies of OPT-1 for allergic conjunctivitis (including synthesizing and formulation of OPT-1);
- conduct our Phase I clinical trial of OPT-1 for allergic conjunctivitis;
- expand our management;
- prepare and make filings with regulatory agencies , potentially including, but not limited to, IND filings with the FDA for MRX-6; and
- incur increased general and administrative expenses as a result of being a public company.

We must generate significant revenue to achieve and maintain profitability. Even if we succeed in developing and commercializing one or more of our product candidates, we may not be able to generate sufficient revenue and we may never be able to achieve or maintain profitability.

We are a development stage company and our limited operating history may make it difficult to evaluate the success of our business to date and to assess our future viability.

We are a development stage company. We commenced operations in February 2005. Our operations to date have been limited to organizing and staffing our company, acquiring, developing, and securing our technology, and undertaking pre-clinical studies and certain clinical trials of our product candidates. We have not filed regulatory applications in the United States for our product candidates and we have not yet demonstrated an ability to obtain regulatory approval, or to synthesize, formulate and manufacture a commercial-scale product, or conduct sales and marketing activities necessary for successful product commercialization. Consequently, any predictions about our future success or viability may not be as accurate as they could be if we had a longer operating history or had previously discovered, developed, and/or commercialized an approved product.

We will require additional capital to fund our operations, and if we are unable to obtain such capital, we will be unable to successfully develop and commercialize our product candidates.

As of October 23, 2013, we had existing cash and investment securities of approximately $9.8 million. We will require additional capital in order to complete the clinical development of and to commercialize our product candidates and our pre-clinical product candidates and to expand our operational plan and management.

Our operating plan for the remainder of fiscal year 2013 and 2014 includes accounting, legal, personnel and corporate expenses to maintain our listing as a public company, as well as research and development expenses which includes personnel expenses, the synthesis, formulation and manufacturing work of MRX-4 and MRX-6 for their respective Phase II clinical trials. In January through September 17, 2013, we received investments totaling $1,706,000 that enabled us to continue the development of MRX-4 and MRX-6 and prepare for our Phase II trial. Furthermore, on September 24, 2013, we closed on investments totaling approximately $12,516,000 that will enable us to initiate the following additional research and development activities:

- Conduct the formulation and toxicology testing of MRX-6 (in the approximate amount of $2,000,000);
- Phase II clinical trials of MRX-6 for dermatitis (in the approximate amount of $700,000); and
- Preclinical testing of OPT-1 and formulation development of (in the approximate amount of $2,000,000).
- Preclinical testing of CFX-1 (in the approximate amount of $150,000).

Our future capital requirements will depend on many factors that are currently unknown to us, including:

- the timing of initiation, progress, results and costs of our clinical trials for MRX-6;
- the timing and costs related to the filing of INDs for MRX-6 and OPT-1;
- the results of preclinical studies of OPT-1, MRX-5 and CFX-1 and the timing of initiation, progress, results and costs of any clinical trials that we may initiate based on the preclinical results;
- the costs of synthesis and formulation;
- the costs of raw materials in order to produce our product candidates;
- the costs of producing the product candidates;
- the costs of establishing commercial manufacturing arrangements and of establishing sales and marketing functions, if needed;
- the cost of scale-up and optimization;
- the scope, progress, results, and cost of preclinical development, clinical trials, and regulatory review of any new product candidates for which we may initiate development;
- the cost of filing regulatory applications for our product candidates;
- the costs of preparing, filing, and prosecuting patent applications and maintaining, enforcing, and defending intellectual property-related claims;
- our ability to establish research collaborations and strategic collaborations and licensing or other arrangements on terms favorable to us;
- the costs to satisfy our obligations under potential future collaborations; and

- the timing, receipt, and amount of sales, milestone payments, licensing fees or royalties, if any, from any approved product candidates.

There can be no assurance that additional funds will be available when we need them on terms that are acceptable to us, or at all. If adequate funds are not available on a timely basis, we may be required to terminate or delay clinical trials or other development for one or more of our product candidates.

We may seek to raise any necessary funds through public or private equity offerings, debt financings, or strategic alliances and licensing arrangements. We may not be able to obtain additional financing on terms favorable to us, if at all. General market conditions may make it very difficult for us to seek financing from the capital markets. We may be required to relinquish rights to our technologies or product candidates, or grant licenses on terms that are not favorable to us, in order to raise additional funds through alliance, joint venture or licensing arrangements.

Our recent financings may result in significant dilution for existing stockholders.

The purchase agreements from many of our previous financings during 2012 and 2013 contain "down round" provisions, which provides that if we make certain dilutive issuances, the number of shares issued will be increased and the exercise price of the warrants will be lowered to the per share price paid in the applicable dilutive issuance. The down round terms from these financings could result in significant and material dilution to current shareholders if we were to sell our ordinary shares at a price below $0.57 per share.

Raising additional capital may cause dilution to existing shareholders, restrict our operations or require us to relinquish rights.

We may seek the additional capital necessary to fund our operations through public or private equity offerings, collaboration agreements, debt financings or licensing arrangements. To the extent that we raise additional capital through the sale of equity or convertible debt securities, existing shareholders' ownership interests will be diluted and the terms may include liquidation or other preferences that adversely affect their rights as a shareholder. Debt financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions such as incurring additional debt, making capital expenditures, or declaring dividends. If we raise additional funds through collaboration and licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies or product candidates, or grant licenses on terms that are not favorable to us.

Capital markets are currently experiencing a period of disruption and instability, which has had and could continue to have a negative impact on the availability and cost of capital.

The United States capital markets have been adversely affected by the current economic problems being experienced in the United States and abroad, particularly in Europe. These global conditions have impacted the broader worldwide financial and credit markets and reduced the availability of debt and equity capital for the market as a whole. These global conditions could persist for a prolonged period of time or worsen in the future. Our ability to access the capital markets may be restricted at a time when we would like, or need, to access those markets, which could have an impact on our flexibility to react to changing economic and business conditions. The resulting lack of available credit, lack of confidence in the financial sector, increased volatility in the financial markets could materially and adversely affect the cost of debt financing and the proceeds of equity financing may be materially adversely impacted by these market conditions.

Our future success depends on our ability to retain our key executives and to attract, retain, and motivate qualified personnel.

The competition for qualified personnel in the biopharmaceutical field is intense and we must retain and motivate highly qualified scientific personnel as well as attract new personnel. We are highly dependent on certain officers and employees, including Mr. Mark Cohen, our Executive Chairman, Dr. Gur Roshwalb, our Chief Executive Officer, Dov Elefant, our Chief Financial Officer and Prof. Saul Yedgar, our Chief Scientific Officer. All of the agreements with these principal members of our executive and scientific teams provide that employment is at-will and may be terminated by the employee at any time and without notice. The loss of the services of any of these persons might impede the achievement of our research, development, and commercialization objectives. Recruiting and retaining qualified scientific personnel and possibly sales and marketing personnel will also be critical to our success. We may not be able to attract and retain these personnel on acceptable terms given the competition among numerous pharmaceutical and biotechnology companies for similar personnel. We also experience competition for the hiring of scientific personnel from universities and research institutions. We do not maintain "key person" insurance on any of our employees. In addition, we rely on consultants and advisors, including scientific and clinical advisors, to assist us in formulating our research and development and commercialization strategy. Our consultants and advisors may be employed by employers other than us and may have commitments under consulting or advisory contracts with other entities that may limit their availability to us.

We will need to hire additional employees in order to commercialize our product candidates in the future. Any inability to manage future growth could harm our ability to commercialize our product candidates, increase our costs and adversely impact our ability to compete effectively.

In order to commercialize our product candidates in the future, we will need to hire experienced sales and marketing personnel to sell and market those product candidates we decide to commercialize, and we will need to expand the number of our managerial, operational, financial and other employees to support commercialization. Competition exists for qualified personnel in the biopharmaceutical field.

Future growth will impose significant added responsibilities on members of management, including the need to identify, recruit, maintain and integrate additional employees. Our future financial performance and our ability to commercialize our product candidates and to compete effectively will depend, in part, on our ability to manage any future growth effectively.

We are exposed to risks related to foreign currency exchange rates.

Some of our costs and expenses are denominated in foreign currencies. When the United States dollar weakens against the foreign currencies, the United States dollar value of the foreign currency denominated expense increases, and when the United States dollar strengthens against the foreign currencies, the United States dollar value of the foreign currency denominated expense decreases. Consequently, changes in exchange rates, and in particular a weakening of the United States dollar, may adversely affect our results of operations.

Risks Related to the Development and Regulatory Approval of Our Product Candidates

Our success is largely dependent on the success of our product candidates, and we cannot be certain that we will be able to obtain regulatory approval for or successfully commercialize any of these product candidates.

We have invested significant time and financial resources in the development of our product candidates. We anticipate that our success will depend largely on the receipt of regulatory approval of clinical development and successful commercialization of our product candidates. The future success of our clinical and pre-clinical programs will depend on several factors, including the following:

- our ability to provide acceptable evidence of their safety and efficacy;
- receipt of marketing approval from the FDA and similar foreign regulatory authorities;
- obtaining and maintaining commercial manufacturing arrangements with third-party manufacturers or establishing commercial-scale manufacturing capabilities;
- possibly establishing an internal sales force or collaborating with pharmaceutical companies or contract sales organizations to market and sell any approved drug;
- acceptance of any approved drug in the medical community and by patients and third-party payers;

- the availability of the raw materials to produce our product candidates; and
- the submission and approval of regulatory filings, and availability of Drug Master Files for raw materials that we are using.

Many of these factors are beyond our control. Accordingly, we cannot assure you that we will ever be able to generate revenues through the license or sale of any of our product candidates.

Our product candidates are still in the early stages of development and remain subject to clinical testing and regulatory approval. If we are unable to successfully develop and test our product candidates, we will not be successful.

To date, we have not filed any US regulatory applications, have not received regulatory approval, nor distributed or sold any drugs. The success of our business depends substantially upon our ability to develop and commercialize our product candidates successfully. We currently have two clinical-stage product candidates in development, MRX-4 and MRX-6, which are in the early stages of clinical development. Our product candidates are prone to the risks of failure inherent in drug development. Before obtaining regulatory approvals for the commercial sale of MRX-4 and MRX-6 or any other product candidate for a target indication, we must demonstrate with substantial evidence gathered in well-controlled clinical trials, and, with respect to approval in the United States, to the satisfaction of the FDA and, with respect to approval in other countries, similar regulatory authorities in those countries, that the product candidate is safe and effective for use for that target indication. Although the Phase 2 clinical trial for MRX-4 is being conducted under ICH rules, which comply with the FDA's rules, the Phase 2 clinical trial for MRX-6 is being conducted as an academic study and, thus, is neither ICH- nor FDA-compliant. We are therefore required to execute another clinical trial that will be either FDA compliant or ICH compliant and, thus, compliant with the FDA's rules, in order to advance this product candidate's development. We intend to execute such a trial in 2015. We currently expect to submit Investigational New Drug, or IND, applications MRX-6 (for dermatitis) in the second half of 2014 and potentially OPT-1 in a similar timeframe. We also plan to initiate pre-clinical work to advance OPT-1 for ophthalmologic indications and potentially CFX-1 in cystic fibrosis in late 2013 or early 2014. Satisfaction of these and other regulatory requirements is costly, time consuming, uncertain, and subject to unanticipated delays. Despite our efforts, our product candidates may not:

- offer improvement over existing, comparable drugs;
- be proven safe and effective in clinical trials;
- meet applicable regulatory standards; or
- be successfully commercialized.

Positive results in preclinical studies or clinical studies of a product candidate may not be predictive of similar results in humans during clinical trials, and promising results from early clinical trials of a product candidate may not be replicated in later clinical trials. Interim results of a clinical trial do not necessarily predict final results. A number of companies in the pharmaceutical and biotechnology industries have suffered significant setbacks in late-stage clinical trials even after achieving promising results in early-stage development. Accordingly, the results from completed preclinical studies and clinical trials for our product candidates may not be predictive of the results we may obtain in later stage trials or studies. Our preclinical studies or clinical trials may produce negative or inconclusive results, and we may decide, or regulators may require us, to conduct additional preclinical studies or clinical trials, or to discontinue clinical trials altogether. We may also decide to stop development of a product candidate for other reasons. We do not expect any of our product candidates to be commercially available for at least several years and some or all may never become commercially available.

If clinical trials for our product candidates are prolonged or delayed, we may be unable to commercialize our product candidates on a timely basis, which would require us to incur additional costs and delay our receipt of any revenue from potential product sales.

We cannot predict whether we will encounter problems with any of our ongoing or planned clinical trials that will cause us or any regulatory authority to delay or suspend those clinical trials or delay the analysis of data derived from them. A number of events, including any of the following, could delay the completion of our ongoing and planned clinical trials and negatively impact our ability to obtain regulatory approval for, and to market and sell, a particular product candidate:

- conditions imposed on us by the FDA or any foreign regulatory authority regarding the scope or design of our clinical trials;
- the possible lack of acceptance of our data from our Phase 2 results by the FDA, due to the fact that the trials were not conducted under FDA protocols or in the United States;
- delays in obtaining, or our inability to obtain, required approvals from institutional review boards, or IRBs, or other reviewing entities at clinical sites selected for participation in our clinical trials;
- insufficient supply or deficient quality of our product candidates supply or materials to produce our product candidates or other materials necessary to conduct our clinical trials;
- delays in obtaining regulatory agreement for the conduct of our clinical trials;
- lower than anticipated enrollment and retention rate of subjects in clinical trials for a variety of reasons, including size of patient population, nature of trial protocol, the availability of approved effective treatments for the relevant disease and competition from other clinical trial programs for similar indications;
- serious and unexpected drug-related side effects experienced by patients in clinical trials;
- failure of our third-party contractors to meet their contractual obligations to us in a timely manner;
- preclinical or clinical trials may produce negative or inconclusive results, which may require us or any potential future collaborators to conduct additional preclinical or clinical testing or to abandon projects that we expect to be promising;
- even if preclinical or clinical trial results are positive, the FDA or foreign regulatory authorities could nonetheless require us to conduct unanticipated additional clinical trials;
- registration or enrollment in clinical trials may be slower than we anticipate, resulting in significant delays or study terminations;
- we or any potential future collaborators may suspend or terminate clinical trials if the participating patients are being exposed to unacceptable health risks;
- regulators or institutional review boards may suspend or terminate clinical research for various reasons, including noncompliance with regulatory requirements; and
- our product candidates may not have the desired effects or may include undesirable side effects.

Clinical trials may also be delayed or terminated as a result of ambiguous or negative interim results. In addition, a clinical trial may be suspended or terminated by us, the FDA, the IRBs at the sites where the IRBs are overseeing a trial, or other regulatory authorities due to a number of factors, including:

- failure to conduct the clinical trial in accordance with regulatory requirements or our clinical protocols;
- the imposition of a clinical hold by the FDA;

- varying interpretation of data by the FDA or similar foreign regulatory authorities;
- failure to achieve primary or secondary endpoints or other failure to demonstrate efficacy;
- seasonal issues, as the conducting of our clinical trials is dependent on the season of the year;
- unforeseen safety issues; or
- the lack of adequate funding to continue the synthesis, formulation, manufacture and/or clinical trials.

Additionally, changes in standard of care or regulatory requirements and guidance may occur and we may need to amend clinical trial protocols to reflect these changes. Such amendments may require us to resubmit our clinical trial protocols to IRBs for reexamination, which may impact the cost, timing or successful completion of a clinical trial. Such changes may also require us to reassess the viability of the program in question.

We do not know whether our clinical trials will begin as planned, will need to be restructured or will be completed on schedule, if at all. Delays in our clinical trials will result in increased development costs for our product candidates. In addition, if we experience delays in completion of, or if we terminate, any of our clinical trials, the commercial prospects for our product candidates may be affected and our ability to generate product revenues will be delayed. Furthermore, many of the factors that cause, or lead to, a delay in the commencement or completion of clinical trials may also ultimately lead to the denial of regulatory approval of a product candidate.

Even if our product candidates receive regulatory approval in the United States, we may never receive approval or commercialize our products outside of the United States.

In order to market any products outside of the United States, we must establish and comply with numerous and varying regulatory requirements of other countries regarding safety and efficacy. Approval procedures vary among countries and can involve additional product testing and additional administrative review periods. The time required to obtain approval in other countries might differ from that required to obtain FDA approval. The regulatory approval process in other countries may include all of the risks detailed above regarding FDA approval in the United States as well as other risks. Regulatory approval in one country does not ensure regulatory approval in another, but a failure or delay in obtaining regulatory approval in one country may have a negative effect on the regulatory process in others. Failure to obtain regulatory approval in other countries or any delay or setback in obtaining such approval would impair our ability to develop foreign markets for our product candidates and may have a material adverse effect on our results of operations and financial condition.

Both before and after marketing approval, our product candidates are subject to ongoing regulatory requirements, and if we fail to comply with these continuing requirements, we could be subject to a variety of sanctions and the sale of any approved commercial products could be suspended.

Both before and after regulatory approval to market a particular product candidate, the manufacturing, labeling, packaging, adverse event reporting, storage, advertising, promotion and record keeping related to the product candidates are subject to extensive regulatory requirements. If we fail to comply with the regulatory requirements of the FDA and other applicable U.S. and foreign regulatory authorities, we could be subject to administrative or judicially imposed sanctions, including:

- restrictions on the products or manufacturing processes;
- warning letters;
- civil or criminal penalties;
- fines;
- injunctions;

- product seizures or detentions and related publicity requirements;
- suspension or withdrawal of regulatory approvals;
- regulators or IRBs may not authorize us or any potential future collaborators to commence a clinical trial or conduct a clinical trial at a prospective trial site, or we may experience substantial delays in obtaining these authorizations;
- total or partial suspension of production; and
- refusal to approve pending applications for marketing approval of new product candidates or supplements to approved applications.

Changes in the regulatory approval policy during the development period, changes in or the enactment of additional regulations or statutes, or changes in regulatory review for each submitted product application may cause delays in the approval or rejection of an application. For example, the FDA announced in 2008 that, due to staffing and resource limitations, it has given its managers discretion to miss certain timing goals for completing reviews of NDAs set forth under the Prescription Drug User Fee Act, or PDUFA. Although the FDA has since publicly expressed a recommitment to meeting PDUFA deadlines, it remains unclear whether and to what extent the FDA will adhere to PDUFA deadlines in the future. If the FDA were to miss a PDUFA timing goal for one of our product candidates, the development and commercialization of the product candidate could be delayed. In addition, the Food and Drug Administration Amendments Act of 2007, or FDAAA, which was enacted in September 2007, expands the FDA's authority to regulate drugs throughout the product life cycle, including enhanced authority to require post-approval studies and clinical trials. Other proposals have been made to impose additional requirements on drug approvals, further expand post-approval requirements and restrict sales and promotional activities. This new legislation, and the additional proposals if enacted, may make it more difficult or burdensome for us or our potential future collaborators to obtain approval of our product candidates. Even if the FDA approves a product candidate, the approval may impose significant restrictions on the indicated uses, conditions for use, labeling, advertising, promotion, marketing and/or production of such product, and may impose ongoing requirements for post-approval studies, including additional research and development and clinical trials. The approval may also impose risk evaluation mitigation strategies, or REMS, on a product if the FDA believes there is a reason to monitor the safety of the drug in the market place. REMS may include requirements for additional training for health care professionals, safety communication efforts and limits on channels of distribution, among other things. The sponsor would be required to evaluate and monitor the various REMS activities and adjust them if need be. The FDA also may impose various civil or criminal sanctions for failure to comply with regulatory requirements, including withdrawal of product approval.

Furthermore, the approval procedure and the time required to obtain approval varies among countries and can involve additional testing beyond that required by the FDA. Approval by one regulatory authority does not ensure approval by regulatory authorities in other jurisdictions. The FDA has substantial discretion in the approval process and may refuse to accept any application or may decide that our data are insufficient for approval and require additional preclinical, clinical or other studies.

In addition, varying interpretations of the data obtained from preclinical and clinical testing could delay, limit, or prevent regulatory approval of a product candidate. Even if we submit an application to the FDA for marketing approval of a product candidate, it may not result in marketing approval from the FDA.

We do not expect to receive regulatory approval for the commercial sale of any of our product candidates that are in development in the near future, if at all. The inability to obtain FDA approval or approval from comparable authorities in other countries for our product candidates would prevent us or any potential future collaborators from commercializing these product candidates in the United States or other countries.

If side effects emerge that can be linked to our product candidates are in development or after they are approved and on the market, we may be required to perform lengthy additional clinical trials, change the labeling of any such products, or withdraw such products from the market, any of which would hinder or preclude our ability to generate revenues.

If we identify side effects or other problems occur in future clinical trials, we may be required to terminate or delay clinical development of the product candidate. Furthermore, even if any of our product candidates receives marketing approval, as greater numbers of patients use a drug following its approval, if the incidence of side effects increases or if other problems are observed after approval that were not seen or anticipated during pre-approval clinical trials, a number of potentially significant negative consequences could result, including:

- regulatory authorities may withdraw their approval of the product;
- we may be required to reformulate such products, change the way the product is manufactured or administered, conduct additional clinical trials or change the labeling of the product;
- we may become the target of lawsuits, including class action suits; and
- our reputation in the market place may suffer resulting in a significant drop in the sales of the affected products.

Any of these events could substantially increase the costs and expenses of developing, commercializing and marketing any such product candidates or could harm or prevent sales of any approved products.

We have not conducted any absorption, distribution, metabolism and excretion (ADME), studies with respect to our clinical and pre-clinical product candidates.

To date, we have not conducted any ADME studies with respect to any of our product candidates as they were not required in order for us to carry out the studies done to date. The objective of the ADME studies are to determine if the test substance or any of its components are absorbed and if any absorbed components are metabolized into harmful chemicals that may or may not accumulate in the body. We will, however, be required to, and will conduct, ADME studies prior to final submission of our product candidates to the FDA for drug approval. In the event that our ADME studies show detrimental effects on certain tissues or poor efficacy, we may be required to terminate or delay clinical development of a particular product candidate.

The number of subjects in our study pools in our clinical trials may be deemed by regulators to be too small.

Our clinical trials have been conducted on a pool of subjects that is structured for such research. Nevertheless, there is the possibility that for statistical reasons, the pool of subjects may be determined by the FDA or another regulatory body to be too small to verify statistical significance. In such a case, the conclusions from the previous trials will need to be established with at least another set of clinical trials testing the relevant issue.

While we choose to test our product candidates in specific clinical indications based in part on our understanding of their mechanisms of action, our understanding may be incorrect or incomplete and, therefore, our product candidates may not be effective against the diseases tested in our clinical trials.

Our rationale for selecting the particular therapeutic indications for each of our product candidates is based in part on our understanding of the mechanism of action of these product candidates. However, our understanding of the product candidate's mechanism of action may be incomplete or incorrect, or the mechanism may not be clinically relevant to the diseases treated. In such cases, our product candidates may prove to be ineffective in the clinical trials for treating those diseases.

We may not be able to keep up with the rapid technological change in the biotechnology and pharmaceutical industries, which could make any future approved products obsolete and reduce our revenue.

Biotechnology and related pharmaceutical technologies have undergone and continue to be subject to rapid and significant change. Our future will depend in large part on our ability to maintain a competitive position with respect to these technologies. Our competitors may render our technologies obsolete by advances in existing technological approaches or the development of new or different approaches, potentially eliminating the advantages in our drug discovery process that we believe we derive from our research approach and proprietary technologies. In addition, any future products that we develop, including our clinical product candidates, may become obsolete before we recover expenses incurred in developing those products, which may require that we raise additional funds to continue our operations.

Risks Related to the Commercialization of Our Product Candidates

Even if any of our product candidates receives regulatory approval, if the approved product does not achieve broad market acceptance, the commercial success and revenues that we generate from sales of the product will be limited.

Even if product candidates we may develop or acquire in the future obtain regulatory approval, they may not gain broad market acceptance among physicians, healthcare payers, patients, and the medical community. If these products do not achieve an adequate level of acceptance, we may not generate material product revenues or receive royalties to the extent we currently anticipate, and we may not become profitable. The degree of market acceptance for any approved product candidate will depend on a number of factors, including:

- demonstration of clinical safety and efficacy compared to other products;
- prevalence and severity of adverse side effects;
- availability of reimbursement from government health programs and other third-party payers;
- convenience and ease of administration;
- cost-effectiveness;
- timing of market introduction of competitive products;
- ineffective marketing and distribution support of our products;
- potential advantages over alternative treatments;
- whether the products we commercialize remain a preferred course of treatment;
- the ability to offer our product candidates for sale at competitive prices;
- relative convenience and ease of administration;
- the cost of the materials to produce our product candidates;
- the strength of marketing and distribution support; and
- sufficient third-party coverage or reimbursement.

If our approved product candidates fail to achieve broad market acceptance, we may not be able to generate significant revenue and our business would suffer. Furthermore, if any of these events were to occur and, as a result, we or any potential future collaborators have significant delays in or termination of clinical trials, our costs could increase and our ability to generate revenue could be impaired, which would materially and adversely impact our business, financial condition and growth prospects.

If we or any potential future collaborators observe serious or other adverse events during the time our product candidates are in development or after our products are approved and on the market, we or any potential future collaborators may be required to perform lengthy additional clinical trials, may be denied regulatory approval of such products, may be forced to change the labeling of such products or may be required to withdraw any such products from the market, any of which would hinder or preclude our ability to generate revenues.

If the incidence of serious or other adverse events related to our product candidates increases in number or severity, if a regulatory authority believes that these or other events constitute an adverse effect caused by the drug, or if other effects are identified during clinical trials that we or any potential future collaborators may conduct in the future or after any of our product candidates are approved and marketed, then:

- we or any potential future collaborators may be required to conduct additional preclinical or clinical trials, make changes in the labeling of any such approved products, reformulate any such products, or implement changes to or obtain new approvals of our contractors' manufacturing facilities;
- regulatory authorities may be unwilling to approve our product candidates or may withdraw approval of our products;
- we may experience a significant drop in the sales of the affected products;
- our reputation in the marketplace may suffer; and
- we may become the target of lawsuits, including class action suits.

Any of these events could prevent approval or harm sales of the affected product candidates or products, or could substantially increase the costs and expenses of commercializing and marketing any such products.

If we are unable to establish sales and marketing capabilities or enter into and maintain agreements with third parties to market and sell our product candidates, we may be unable to generate product revenue.

We do not currently have an organization nor have any experience in sales, marketing and distribution of pharmaceutical products. We will need to establish sales and marketing capabilities or establish and maintain agreements with third parties to market and sell our product candidates. In order to market any products that may be approved by the FDA, or similar foreign regulatory authorities, we must build our sales, marketing, managerial and other non-technical capabilities, license to a commercial partner, or make arrangements with third parties to perform these services. There are risks involved with entering into arrangements with third parties to perform these services, which could delay the commercialization of any of our product candidates if approved for commercial sale. If we are unable to establish adequate sales, marketing and distribution capabilities, whether independently or with third parties, we may not be able to generate product revenue and our business would suffer. In addition, to the extent that when we enter into arrangements with third parties to perform sales, marketing and distribution services, our product revenues are likely to be lower than if we could market and sell any products that we develop ourselves.

If we and/or any potential future collaborators are unable to obtain reimbursement or experience a reduction in reimbursement from third-party payers for products we sell, our revenues and prospects for profitability will suffer.

Sales of products developed by us and/or any potential future collaborators are dependent on the availability and extent of reimbursement from third-party payers. Changes in the reimbursement policies of these third-party payers that result in reduction of reimbursements for our prospective product candidates and any other products that we and/or any potential future collaborators may develop and sell, could negatively impact our future operating and financial results.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 established comprehensive Medicare coverage and reimbursement of prescription drugs under Medicare Part D. The prescription drug program established by this legislation may have the effect of reducing the prices that we or any potential future collaborators are able to charge for products we and/or any potential future collaborators develop and sell through the program. This legislation may also cause third-party payers other than the federal government, including the states under the Medicaid program, to discontinue coverage for products that we and/or any potential future collaborators may develop or to lower the amount that they pay.

In March 2010, the United States Congress enacted the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act. This health care reform legislation will increase the number of individuals who receive health insurance coverage and will close a gap in drug coverage under Medicare Part D as established in 2003. However, the legislation also implements cost containment measures that could adversely affect our revenues. These measures include increased drug rebates under Medicaid for brand name prescription drugs, such as our prospective product candidates, and extension of these rebates to Medicaid managed care, each of which have reduced the amount of net reimbursement received for our prospective product candidates and would reduce the amount of net reimbursement for any other products that we and/or any potential future collaborators may develop and sell. The legislation also extended 340B discounted pricing on outpatient drugs to children's hospitals, critical access hospitals, and rural health centers, which has reduced the amount of reimbursement received for drugs purchased by these new 340B-covered entities. Additional provisions of the health care reform legislation may negatively affect our revenues and prospects for profitability in the future. Along with other pharmaceutical manufacturers and importers of brand name prescription drugs, we are assessed a fee based on our proportionate share of sales of brand name prescription drugs to certain government programs, including Medicare and Medicaid, made in the preceding year if such sales exceed a defined threshold. As part of the health care reform legislation's provisions closing a funding gap that currently exists in the Medicare Part D prescription drug program (commonly known as the "donut hole"), as of January 1, 2011, we are required to provide a 50% discount on brand name prescription drugs, including our prospective product candidates, sold to beneficiaries who fall within the donut hole. The health care reform legislation has been subject to judicial challenge. While some courts have upheld the law, other courts have concluded that the individual mandate component of the law is unconstitutional. One of those courts determined that the individual mandate component could not be severed from the law and therefore concluded that the entire law was void. All of the rulings on the merits are being appealed. There is no certainty regarding the final outcome of the litigation or the impact of the outcome on the pricing and potential profitability of any products that we and/or any potential future collaborators may develop.

Economic pressure on state budgets may result in states increasingly seeking to achieve budget savings through mechanisms that limit coverage or payment for drugs. State Medicaid programs are increasingly requesting manufacturers to pay supplemental rebates and requiring prior authorization for use of drugs where supplemental rebates are not provided. Private health insurers and managed care plans are likely to continue challenging the prices charged for medical products and services, and many of these third-party payers may limit reimbursement for newly-approved health care products. In particular, third-party payers may limit the indications for which they will reimburse patients who use any products that we and/or any potential future collaborators may develop or sell. These cost-control initiatives could decrease the price we might establish for products that we or any potential future collaborators may develop or sell, which would result in lower product revenues or royalties payable to us.

Similar cost containment initiatives exist in countries outside of the United States, particularly in the countries of the European Union, where the pricing of prescription pharmaceuticals is subject to governmental control. In these countries, pricing negotiations with governmental authorities can take six to twelve months or longer after the receipt of regulatory marketing approval for a product. To obtain reimbursement or pricing approval in some countries, we or any potential future collaborators may be required to conduct a clinical trial that compares the cost effectiveness of our product candidates or products to other available therapies. The conduct of such a clinical trial could be expensive and result in delays in our or a potential future collaborators' commercialization efforts. Third-party payers are challenging the prices charged for medical products and services, and many third-party payers limit reimbursement for newly-approved health care products. In particular, third-party payers may limit the indications for which they will reimburse patients who use any products that we and/or any potential future collaborators may develop or sell. Cost-control initiatives could decrease the price we might establish for products that we or any potential future collaborators may develop or sell, which would result in lower product revenues or royalties payable to us. Another development that could affect the pricing of drugs would be if the Secretary of Health and Human Services allowed drug re-importation into the United States. The Medicare Prescription Drug, Improvement and Modernization Act of 2003 gives discretion to the Secretary of Health and Human Services to allow drug re-importation into the United States under some circumstances from foreign countries, including from countries where the drugs are sold at a lower price than in the United States. If the circumstances were met and the Secretary exercised the discretion to allow for the direct re-importation of drugs, it could decrease the price we or any potential future collaborators receive for any products that we and/or any potential future collaborators may develop, negatively affecting our revenues and prospects for profitability.

If we are unable to establish manufacturing capabilities or enter into agreements with third parties to supply materials to make our product candidates, or manufacture our clinical trial drug supplies, we may be unable to generate product revenue.

We do not currently have the capability to manufacture pharmaceutical products. In order to commercialize any products that may be approved by the FDA, or similar foreign regulatory authorities, we must build and operate manufacturing, storage and distribution facilities, or make arrangements with third parties to perform these services. If we are unable to establish manufacturing capabilities, whether independently or with third parties, we may not be able to generate product revenue and our business would suffer.

Changes in healthcare policy could adversely affect our business.

U.S. and foreign governments continue to propose and pass legislation designed to reduce the cost of healthcare. For example, the Medicare Prescription Drug Improvement and Modernization Act of 2003, or MMA, expanded Medicare coverage for drugs purchased by Medicare beneficiaries and introduced new reimbursement methodologies. In addition, this law provided authority for limiting the number of drugs that will be covered in any therapeutic class. We do not know what impact the MMA and similar laws will have on the availability of coverage for and the price that we receive for any approved products. Moreover, while the MMA applies only to drug benefits for Medicare beneficiaries, private payers often follow Medicare policies in setting their own reimbursement policies, and any reduction in reimbursement that results from the MMA may result in similar reductions by private payers.

In March 2010, the President signed the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act, together the Affordable Care Act or ACA. This law is expected to result in an increase in the number of people who are covered by both public and private insurance and is also expected to substantially change the way health care is financed by both government health program and private insurers, and significantly impact the pharmaceutical industry. The ACA contains a number of provisions that may impact our business and operations in ways that may negatively affect our potential revenues in the future. For example, the ACA imposes a non-deductible excise tax on pharmaceutical manufacturers or importers that sell branded prescription drugs to U.S. government programs which we believe will increase the cost of any products that we develop. In addition, as part of the ACA's provisions closing a funding gap that currently exists in the Medicare Part D prescription drug program (commonly known as the "donut hole"), we will be required to provide a 50% discount on any branded prescription drugs that we develop sold to beneficiaries who fall within the donut hole. While it is too early to predict all the specific effects the ACA or any future healthcare reform legislation will have on our business, they could have a material adverse effect on our business and financial condition.

The availability of government reimbursement for prescription drugs is also likely to be impacted by the Budget Control Act of 2011, which was signed into law on August 2, 2011. This law is expected to result in federal spending cuts totaling between $1.2 trillion and $1.5 trillion over the next decade over half of which will include cuts in Medicare and other health related spending.

If a successful product liability claim or series of claims is brought against us for uninsured liabilities or in excess of insured liabilities, we could incur substantial liability.

The use of our product candidates in clinical trials and the sale of any products for which we obtain marketing approval expose us to the risk of product liability claims. Product liability claims might be brought against us by consumers, health care providers or others selling or otherwise coming into contact with our products. If we cannot successfully defend ourselves against product liability claims, we could incur substantial liabilities. In addition, regardless of merit or eventual outcome, product liability claims may result in:

- decreased demand for any approved product candidates;
- impairment of our business reputation;
- withdrawal of clinical trial participants;

- costs of related litigation;
- distraction of management's attention from our primary business;
- substantial monetary awards to patients or other claimants;
- loss of revenues; and
- the inability to successfully commercialize any approved product candidates.

We obtained product liability insurance coverage for our clinical trials with $3 million coverage for dermatitis clinical trials. However, our insurance coverage may not be sufficient to reimburse us for any expenses or losses we may suffer. Moreover, insurance coverage is becoming increasingly expensive, and, in the future, we may not be able to maintain insurance coverage at a reasonable cost or in sufficient amounts to protect us against losses due to liability. If and when we obtain marketing approval for any of our product candidates, we intend to expand our insurance coverage to include the sale of commercial products; however, we may be unable to obtain this product liability insurance on commercially reasonable terms. On occasion, large judgments have been awarded in class action lawsuits based on drugs that had unanticipated side effects. A successful product liability claim or series of claims brought against us could cause our share price to decline and, if judgments exceed our insurance coverage, could decrease our cash and adversely affect our business.

We are subject to federal and state laws prohibiting "kickbacks" and false or fraudulent claims, and state gift ban laws which, if violated, could subject us to substantial penalties. Additionally, any challenge to or investigation into our practices under these laws could cause adverse publicity and be costly to respond to, and thus could harm our business.

A federal law commonly known as the federal anti-kickback law, and several similar state and foreign laws, prohibit the payment of any remuneration that is intended to induce physicians or others either to refer patients or to acquire or arrange for or recommend the acquisition of health care products or services. Other federal and state and foreign laws generally prohibit individuals or entities from knowingly presenting, or causing to be presented, claims for payment to Medicare, Medicaid or other third-party payers that are false or fraudulent, or for items or services that were not provided as claimed.

A number of states have enacted laws that require pharmaceutical and medical device companies to monitor and report payments, gifts and other remuneration made to physicians and other health care professional and health care organizations. Some state statutes impose an outright ban on gifts to physicians. These laws are often referred to as "gift ban" or "aggregate spend" laws, and they carry substantial fines if they are violated. In addition, the ACA requires the annual reporting of certain payments and other transfers of value that are made to health care professionals in 2012 and thereafter. The federal ACA does not preempt all aspects of the similar state laws.

In the event that we are found to have violated these laws or decide to settle a claim that we have done so, our business may be materially adversely affected as a result of any payments required to be made, restrictions on our future operations or actions required to be taken, damage to our business reputation or adverse publicity in connection with such a finding or settlement or other adverse effects relating thereto. Additionally, even an unsuccessful challenge or investigation into our practices could cause adverse publicity, and be costly to respond to, and thus could harm our business and results of operations.

If our competitors are better able to develop and market products than any products that we and/or any potential future collaborators may develop, our commercial opportunity will be reduced or eliminated.

We face competition from commercial pharmaceutical and biotechnology enterprises, as well as from academic institutions, government agencies and private and public research institutions. Our commercial opportunities will be reduced or eliminated if our competitors develop and commercialize products that are safer, more effective, have fewer side effects or are less expensive than any products that we and/or any potential future collaborators may develop. Competition could result in reduced sales and pricing pressure on our product candidates, if approved, which in turn would reduce our ability to generate meaningful revenue and have a negative impact on our results of operations. In addition, significant delays in the development of our product candidates could allow our competitors to bring products to market before us and impair any ability to commercialize our product candidates.

Various products are currently marketed or used off-label for some of the diseases and conditions that we are targeting in our pipeline and a number of companies are or may be developing new treatments. These product uses, as well as promotional efforts by competitors and/or clinical trial results of competitive products, could significantly diminish any ability to market and sell any products that we and/or any potential future collaborators may develop.

With respect to our clinical and pre-clinical programs, there are other product candidates in development that may compete with our product candidates and any future similar product candidates, if approved for commercial sale. Our closest competitor of which we are aware is Anthera Pharmaceuticals, Inc. (NASDAQ:ANTH), which is actively developing a PLA2 inhibitor treatment of cardiovascular disease in phase 3 clinical trials, although these trials were stopped due to lack of efficacy, and Ziarco Pharma, Ltd, which is developing a cytosolic PLA2 inhibitor potentially for skin and lung diseases. Other competitors include Anacor Pharmaceuticals, as an example, which is pursuing the development of a boron based topical PDE-4 inhibitor for inflammatory skin disease. Many of our competitors have significantly greater financial resources and expertise in research and development, manufacturing, preclinical testing, conducting clinical trials, obtaining regulatory approvals and marketing approved products than we do. Smaller or early-stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies. These third parties compete with us in recruiting and retaining qualified scientific and management personnel, establishing clinical trial sites and patient registration for clinical trials, as well as in acquiring technologies and technology licenses complementary to our programs or advantageous to our business.

Risks Related to Our Dependence on Third Parties

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

Our drug development programs and potential commercialization of our product candidates will require substantial additional cash to fund expenses. Our strategy includes selectively partnering or collaborating with leading pharmaceutical and biotechnology companies to assist us in furthering development and potential commercialization of our product candidates in some or all geographics. We face significant competition in seeking appropriate collaborators, and collaborations are complex and time consuming to negotiate and document. We may not be successful in entering into new collaborations with third parties on acceptable terms, or at all, including as a result of the collaboration discussions we are pursuing for several of our product candidates. In addition, we are unable to predict when, if ever, we will enter into any additional collaborative arrangements because of the numerous risks and uncertainties associated with establishing such arrangements. If we are unable to negotiate new collaborations, we may have to curtail the development of a particular product candidate, reduce, delay, or terminate its development or one or more of our other development programs, delay its potential commercialization or reduce the scope of our sales or marketing activities or increase our expenditures and undertake development or commercialization activities at our own expense. If we elect to increase our expenditures to fund development or commercialization activities on our own, we will need to raise substantial additional capital, which may not be available to us on acceptable terms, or at all. If we do not have sufficient funds, we will not be able to bring our product candidates to market and generate product revenues.

We depend on third-party suppliers for key raw materials used in our manufacturing processes, and the loss of these third-party suppliers or their inability to supply us with adequate raw materials could harm our business.

We rely on third-party suppliers for the raw materials required for the production of our product candidates. Our dependence on these third-party suppliers and the challenges we may face in obtaining adequate supplies of raw materials involve several risks, including limited control over pricing, availability, quality, and delivery schedules. We cannot be certain that our current suppliers will continue to provide us with the quantities of these raw materials that we require or satisfy our anticipated specifications and quality requirements. Any supply interruption in limited or sole sourced raw materials could materially harm our ability to manufacture our products until a new source of supply, if any, could be identified and qualified. Although we believe there are several other suppliers of these raw materials, we may be unable to find a sufficient alternative supply channel in a reasonable time or on commercially reasonable terms. Any performance failure on the part of our suppliers could delay the development and commercialization of our product candidates, including limiting supplies necessary for clinical trials and regulatory approvals, or interrupt production of the existing products that are already marketed, which would have a material adverse effect on our business.

Any collaborative arrangements that we establish in the future may not be successful or we may otherwise not realize the anticipated benefits from these collaborations. In addition, any future collaboration arrangements may place the development and commercialization of our product candidates outside our control, may require us to relinquish important rights or may otherwise be on terms unfavorable to us.

In the future, we may not be able to locate third-party collaborators to develop and market our product candidates, and we may lack the capital and resources necessary to develop our product candidates alone. Dependence on collaborative arrangements subjects us to a number of risks, including:

- we may not be able to control the amount and timing of resources that our potential future collaborators may devote to our product candidates;
- potential future collaborations may experience financial difficulties or changes in business focus;
- we may be required to relinquish important rights such as marketing and distribution rights;
- should a collaborator fail to develop or commercialize one of our compounds or product candidates, we may not receive any future milestone payments and will not receive any royalties for the compound or product candidate;
- business combinations or significant changes in a collaborator's business strategy may also 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 product 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 product candidates.

If third parties do not manufacture our product candidates in sufficient quantities, in the required timeframe, and at an acceptable cost, clinical development and commercialization of our product 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 for the production of clinical and commercial quantities of our product candidates. Our current and anticipated future dependence upon others for the manufacture of our product candidates may adversely affect our future profit margins, if any, and our ability to develop product candidates and commercialize any product candidates on a timely and competitive basis.

We rely on third-party vendors for the manufacture of our materials. If our supply of these synthetic raw materials becomes unusable or if the contract manufacturers that we are currently utilizing to meet our supply needs for these materials or any future such product candidates prove incapable or unwilling to continue to meet our supply needs, we could experience a delay in conducting any additional clinical trials of our product candidates or any future product candidates. Furthermore, the respective third parties hold the Drug Master File (DMF) on these materials. Accordingly, we will need to maintain access to them or create them ourselves, a procedure that will be very costly, and shall take time. In addition, we rely on third-party contractors for the manufacture of our drug substance. We may not be able to maintain or renew our existing or any other third-party manufacturing arrangements on acceptable terms, if at all. If for some reason our contract manufacturers cannot perform as agreed, we may be required to replace them. Although we believe there are a number of potential replacements as our manufacturing processes are not manufacturer specific, we may incur added costs and delays in identifying and qualifying any such replacements because the FDA must approve any replacement manufacturer prior to manufacturing our product candidates. Such approval would require new testing and compliance inspections. In addition, a new manufacturer would have to be educated in, or develop substantially equivalent processes for, production of our product candidates after receipt of FDA approval.

We anticipate continued reliance on third-party manufacturers if we are successful in obtaining marketing approval from the FDA and other regulatory agencies for any of our product candidates.

To date, our product candidates have been manufactured in small quantities for preclinical testing and clinical trials by third-party manufacturers. If the FDA or other regulatory agencies approve any of our product 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 product candidates. These manufacturers may not be able to successfully increase the manufacturing capacity for any of our approved product candidates in a timely or economic manner, or at all. Significant scale-up of manufacturing may require additional validation studies, which the FDA must review and approve. If they are unable to successfully increase the manufacturing capacity for a product 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.

Use of third-party manufacturers may increase the risk that we will not have adequate supplies of our product candidates or products.

Reliance on third-party manufacturers entails risks, to which we would not be subject if we manufactured product candidates or products ourselves, including:

- reliance on the third party for regulatory compliance and quality assurance;
- the possible breach of the manufacturing agreement by the third party because of factors beyond our control;
- the possible termination or non-renewal of the agreement by the third party, based on its own business priorities, at a time that is costly or inconvenient for us; and
- drug product supplies not meeting the requisite requirements for clinical trial use.

If we are not able to obtain adequate supplies of our product candidates, it will be more difficult for us to develop our product candidates and compete effectively. Our product candidates and any products that we and/or our potential future collaborators may develop may compete with other product candidates and products for access to manufacturing facilities.

Although our present manufactures are in compliance with current FDA - mandated Good Manufacturing Practice regulations, there is no assurance that future manufacturing partners may be able to comply with those regulations, other FDA regulatory requirements or similar regulatory requirements outside the United States. Failure of our third-party manufacturers or us to comply with applicable regulations could result in sanctions being imposed on us, including fines, injunctions, civil penalties, failure of regulatory authorities to grant marketing approval of our product candidates, delays, suspension or withdrawal of approvals, license revocation, seizures or recalls of product candidates or products, operating restrictions and criminal prosecutions, any of which could significantly and adversely affect supplies of our product candidates.

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

We do not have the ability to independently conduct clinical trials for our product candidates, and we rely on third parties, such as contract research organizations (primarily Target Health, Inc.), medical institutions, and clinical investigators 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 these 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 FDA 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. Accordingly, we may be delayed in obtaining regulatory approvals for our product candidates and may be delayed in our efforts to successfully commercialize our product candidates for targeted diseases.

Risks Related to Our Intellectual Property

If we are unable to adequately protect the intellectual property relating to our product candidates, or if we infringe the rights of others, our ability to successfully commercialize our product candidates will be harmed.

We own or hold licenses to a number of issued patents and U.S. pending patent applications, as well as foreign patents and foreign counterparts. Our success depends in part on our ability to obtain patent protection both in the United States and in other countries for our product candidates, as well as the methods for treating patients in the product indications using these product candidates. Our ability to protect our product candidates from unauthorized or infringing use by third parties depends in substantial part on our ability to obtain and maintain valid and enforceable patents. Due to evolving legal standards relating to the patentability, validity and enforceability of patents covering pharmaceutical inventions and the scope of claims made under these patents, our ability to obtain, maintain and enforce patents is uncertain and involves complex legal and factual questions. Even if our product candidates, as well as methods for treating patients for prescribed indications using these product candidates are covered by valid and enforceable patents and have claims with sufficient scope, disclosure and support in the specification, the patents will provide protection only for a limited amount of time. Accordingly, rights under any issued patents may not provide us with sufficient protection for our product candidates or provide sufficient protection to afford us a commercial advantage against competitive products or processes.

In addition, we cannot guarantee that any patents will issue from any pending or future patent applications owned by or licensed to us. Even if patents have issued or will issue, we cannot guarantee that the claims of these patents are or will be valid or enforceable or will provide us with any significant protection against competitive products or otherwise be commercially valuable to us. Patent applications in the United States are maintained in confidence for up to 18 months after their filing. In some cases, however, patent applications remain confidential in the U.S. Patent and Trademark Office, or the U.S. Patent Office, for the entire time prior to issuance as a U.S. patent. Similarly, publication of discoveries in scientific journals or patent literature, often lag behind actual discoveries. Consequently, we cannot be certain that we or our licensors or co-owners were the first to invent, or the first to file patent applications on, our product candidates or their use as drugs. In the event that a third party has also filed a U.S. patent application relating to our product candidates or a similar invention, we may have to participate in interference or derivation proceedings declared at the U.S. Patent Office to determine priority of invention in the United States. The costs of these proceedings could be substantial and it is possible that our efforts would be unsuccessful, resulting in a loss of our U.S. patent position. Furthermore, we may not have identified all U.S. and foreign patents or published applications that affect our business either by blocking our ability to commercialize our products or by covering similar technologies.

The laws of some foreign jurisdictions do not protect intellectual property rights to the same extent as in the United States and many companies have encountered significant difficulties in protecting and defending such rights in foreign jurisdictions. Furthermore, different countries have different procedures for obtaining patents, and patents issued in different countries offer different degrees of protection against use of the patented invention by others. If we encounter such difficulties in protecting or are otherwise precluded from effectively protecting our intellectual property rights in foreign jurisdictions, our business prospects could be substantially harmed.

Changes in either patent laws or in interpretations of patent laws in the United States and other countries may materially diminish the value of our intellectual property or narrow the scope of our patent protection.

The patent positions of biotechnology and pharmaceutical companies, including our patent position, involve complex legal and factual questions, and, therefore, validity and enforceability cannot be predicted with certainty. Patents may be challenged, deemed unenforceable, invalidated, or circumvented. Our patents can be challenged by our competitors who can argue that our patents are invalid, unenforceable, lack sufficient written description or enablement, or that the claims of the issued patents should be limited or narrowly construed. Patents also will not protect our product candidates if competitors devise ways of making or using these product candidates without legally infringing our patents. The Federal Food, Drug, and Cosmetic Act and FDA regulations and policies create a regulatory environment that encourages companies to challenge branded drug patents or to create non-infringing versions of a patented product in order to facilitate the approval of abbreviated new drug applications for generic substitutes. These same types of incentives encourage competitors to submit new drug applications that rely on literature and clinical data not prepared for or by the drug sponsor, providing a less burdensome pathway to approval.

We will be able to protect our proprietary rights from unauthorized use by third parties only to the extent that our proprietary technologies, product candidates, and any future products are covered by valid and enforceable patents or are effectively maintained as trade secrets and we have the funds to enforce our rights, if necessary.

The expiration of our owned or licensed patents before completing the research and development of our product candidates and receiving all required approvals in order to sell and distribute the products on a commercial scale can adversely affect our business and results of operations.

We own or have exclusive rights to 14 United States and 12 foreign issued patents; and 14 United States and 42 foreign patent applications, as well as 2 pending international patent applications. Issued patents which cover our product candidates MRX-4, MRX-5, MRX-6, OPT-1 and CFX-1 in the United States, will expire between 2021 and 2022, depending on the specific product candidates. Issued patents directed to our product candidates MRX-4, MRX-5, MRX-6, OPT-1 and CFX-1 outside of the United States, will expire between 2021 and 2025, depending on the specific compositions. We have pending patent applications for formulations of our product candidates MRX-4, MRX-5, MRX-6, OPT-1 and CFX-1 that, if issued, would expire in the United States and in countries outside of the United States between 2021 and 2032, depending on the specific compositions and formulations. We have an issued patent directed to methods of manufacturing which covers our product candidates compounds in the United States and which will expire in 2021. Issued patents directed to methods of treatment using our product candidates MRX-4, MRX-5, MRX-6 and OPT-1 in the United States, will expire between 2021 and 2024, depending on the specific indication: allergic rhinitis (MRX-4), contact dermatitis (MRX-6), conjunctivitis (OPT-1) and inflammatory bowel disease (MRX-5). Issued patents directed to use of our product candidate: allergic rhinitis (MRX-4), contact dermatitis (MRX-6), and inflammatory bowel disease (MRX-5).and CFX-1for indications outside of the United States, will expire between 2021 and 2026, depending on the specific indication: allergic rhinitis (MRX-4), contact dermatitis (MRX-6), inflammatory bowel disease (MRX-5), and cystic fibrosis (CFX-1). We have pending patent applications for use of our product candidates MRX-4, MRX-5, MRX-6, OPT-1 and CFX-1 that, if issued : allergic rhinitis (MRX-4), contact dermatitis (MRX-6), conjunctivitis and dry eye (OPT-1), inflammatory bowel disease (MRX-5) and cystic fibrosis (CFX-1) would expire in the United States and in countries outside of the United States between 2021 and 2032, depending on the specific indications and formulations: allergic rhinitis (MRX-4), contact dermatitis (MRX-6), conjunctivitis and dry eye (OPT-1), inflammatory bowel disease (MRX-5) and cystic fibrosis (CFX-1).

We license patent rights from third-party owners. Our licenses may be subject to early termination if we fail to comply with our obligations in our licenses with third parties. If we lose our license from Yissum we may be unable to continue a substantial part of our business.

We are party to a number of licenses that give us rights to third-party intellectual property that is necessary or useful for a substantial part of our business. Pursuant to our exclusive license agreement with Yissum Research Development Company of the Hebrew University of Jerusalem, or Yissum, under which we license certain patent rights for our product candidates and their uses, we are required to use commercially reasonable best efforts to commercialize products based on the licensed rights and pay certain royalties and sublicensing revenue to Yissum. We may also enter into additional licenses to third-party intellectual property in the future. Our licensors may terminate their agreements with us in the event we breach the applicable license agreement and fail to cure the breach within a specified period of time. Under our existing license agreements, we are obligated to pay the licensor fees, which include royalties, a percentage of revenues associated with the licensed technology and a percentage of sublicensing revenue. In addition, under our existing license agreements, we are required to use our commercially reasonable best efforts to pursue the development of products using the licensed technology. If we breach any of the terms of our Yissum license, Yissum may terminate the agreements prior to their expiration date of the term of the last to expire licensed patent, which would have a material adverse effect on our business.

Litigation regarding patents, patent applications and other proprietary rights may be expensive and time consuming. If we are involved in such litigation, it could cause delays in bringing product candidates to market and harm our ability to operate.

Our success will depend in part on our ability to operate without infringing the proprietary rights of third parties. The pharmaceutical industry is characterized by extensive litigation regarding patents and other intellectual property rights. Other parties may obtain patents in the future and allege that the use of our technologies infringes these patent claims or that we are employing their proprietary technology without authorization.

In addition, third parties may challenge or infringe upon our existing or future patents. Proceedings involving our patents or patent applications or those of others could result in adverse decisions regarding:

- the patentability of our inventions relating to our product candidates; and/or
- the enforceability, validity or scope of protection offered by our patents relating to our product candidates.

Even if we are successful in these proceedings, we may incur substantial costs and divert management time and attention in pursuing these proceedings, which could have a material adverse effect on us. If we are unable to avoid infringing the patent rights of others, we may be required to seek a license, defend an infringement action or challenge the validity of the patents in court. Patent litigation is costly and time consuming. We may not have sufficient resources to bring these actions to a successful conclusion. In addition, if we do not obtain a license, develop or obtain non-infringing technology, fail to defend an infringement action successfully or have infringed patents declared invalid, we may:

- incur substantial monetary damages;
- encounter significant delays in bringing our product candidates to market; and/or
- be precluded from participating in the manufacture, use or sale of our product candidates or methods of treatment requiring licenses.

We may be unable to adequately prevent disclosure of trade secrets and other proprietary information.

We also rely on trade secrets to protect our proprietary technologies, especially where we do not believe patent protection is appropriate or obtainable. However, trade secrets are difficult to protect. We rely in part on confidentiality agreements with our employees, consultants, outside scientific collaborators, sponsored researchers, and other advisors to protect our trade secrets and other proprietary information. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, others may independently discover our trade secrets and proprietary information. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect our competitive business position.

Risks Related to Our Ordinary Shares and ADSs

A very limited public market exists for our securities and we cannot assure you that our Ordinary Shares will be listed on any securities exchange or that an active trading market will ever develop for any of our securities.

Our Ordinary Shares and ADSs are not yet eligible for trading on any national securities exchange. Our ADSs are presently quoted for trading on the OTCQB and OTC Bulletin Board under the symbol "CLSXY" but trading has been very limited to date. We intend to subsequently seek to list our ADSs on the NASDAQ Stock Market, the NYSE MKT or another national securities exchange when we can qualify under such exchange's applicable original listing standards. With respect to the minimum bid price, we may need to effect a reverse stock split of our outstanding Ordinary Shares. However, even if the reverse stock split achieves the requisite increase in the market price of our ADSs, we cannot assure you that we will be successful in meeting the original listing standards of The NASDAQ Capital Market. Additionally, a reverse stock split may not increase the liquidity of our ADSs, and the resulting market price of our ADSs following such a split may not attract new investors. Consequently, the trading liquidity of our ADSs may not improve. We may not be successful in doing so and cannot assure you that our ADSs will be listed on a national securities exchange. An investor may find it more difficult to dispose of ADSs or obtain accurate quotations as to the market value of the ADSs than would be the case if and when our ADSs are listed on a national securities exchange. We do not currently meet the initial listing standards of any national securities exchange. We cannot assure you that we will be able to meet the initial listing standards of any national securities exchange, or, if we do meet such initial listing standards, that we will be able to maintain any such listing. There is no assurance that an active trading market in our ADSs will develop, or if such a market develops, that it will be sustained. In addition, there is a greater chance for market volatility for securities quoted in the over-the-counter market as compared with securities traded on a national exchange. This volatility may be caused by a variety of factors, including the lack of readily available quotations, the absence of consistent administrative supervision of "bid" and "ask" quotations and generally lower trading volume. As a result, an investor may find it more difficult to dispose of, or to obtain accurate quotations as to the market value of, our ADSs, or to obtain coverage for significant news events concerning us, and our ADSs could become substantially less attractive or ineligible for margin loans, for investment by financial institutions, as collateral for borrowing, as consideration in future capital raising transactions or for other purposes.

Blue Sky considerations may limit sales in certain states.

The holders of our securities and persons who desire to purchase them in any trading market that might develop in the future should be aware that there may be significant state law restrictions upon the ability of investors to resell our securities. Investors should consider any secondary market for our securities to be a limited one. We intend to seek coverage and publication of information regarding the company in an accepted publication which permits a "manual exemption". This manual exemption permits a security to be distributed in a particular state without being registered if the company issuing the security has a listing for that security in a securities manual recognized by the state. However, it is not enough for the security to be listed in a recognized manual. The listing entry must contain (1) the names of issuers, officers, and directors, (2) an issuer's balance sheet, and (3) a profit and loss statement for either the fiscal year preceding the balance sheet or for the most recent fiscal year of operations. There is no guarantee that we will be able to secure a listing containing all of this information or how long it might take to secure such a listing. Until a listing is published, trading in our securities will be subject to significant state law restrictions.

Because we became a reporting company under the Exchange Act by means of filing a Form 20-F, we may not be able to 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 ("**IPO**") of our Ordinary Shares or ADSs, we do not expect security analysts of major brokerage firms to provide coverage of our company in the near future. In addition, major investment banks may be less likely to agree to underwrite secondary offerings on our behalf than they might if we had become a public reporting company by means of an IPO. The failure to receive research coverage or support in the market for our Ordinary Shares or ADSs will have an adverse effect on our ability to develop a liquid market for our ADSs.

Our ADSs are likely to be subject to the SEC's penny stock rules, so broker-dealers may experience difficulty in completing customer transactions and trading activity in our securities may be adversely affected.

The SEC has adopted regulations which generally define "penny stock" to be an equity security that has a market price of less than $5.00 per share, subject to specific exemptions. The market price of our Ordinary Shares or ADSs may be less than $5.00 per share for some period of time and therefore would be a "penny stock" according to SEC rules, unless our ADSs are listed on a national securities exchange. Under these rules, broker-dealers who recommend such securities to persons other than institutional accredited investors must:

- make a special written suitability determination for the purchaser;
- receive the purchaser's prior written agreement to the transaction;
- provide the purchaser with risk disclosure documents which identify certain risks associated with investing in "penny stocks" and which describe the market for these "penny stocks" as well as a purchaser's legal remedies; and
- obtain a signed and dated acknowledgment from the purchaser demonstrating that the purchaser has actually received the required risk disclosure document before a transaction in a "penny stock" can be completed.

If required to comply with these rules, broker-dealers may find it difficult to effectuate customer transactions and trading activity in our securities may be adversely affected.

The market price of our ADSs may be volatile and may fluctuate in a way that is disproportionate to our operating performance.

Even if an active trading market develops for our ADSs, our stock price may experience substantial volatility as a result of a number of factors. The market prices for securities of biotechnology companies in general have been highly volatile and may continue to be so in the future. The following factors, in addition to other risk factors described in this section, may have a significant impact on the market price of our ADSs:

- sales or potential sales of substantial amounts of our Ordinary Shares or ADSs;
- delay or failure in initiating, enrolling, or completing pre-clinical or clinical trials or unsatisfactory results of these trials or events reported in any of our current or future clinical trials;
- announcements about us or about our competitors, including clinical trial results, regulatory approvals or new product introductions;
- developments concerning our licensors or product manufacturers;
- litigation and other developments relating to our patents or other proprietary rights or those of our competitors;
- conditions in the pharmaceutical or biotechnology industries;
- governmental regulation and legislation;
- variations in our anticipated or actual operating results;
- change in securities analysts' estimates of our performance, or our failure to meet analysts' expectations;
- whether, to what extent and under what conditions the FDA will permit us to continue developing our product candidates, if at all, and if development is continued, any reports of safety issues or other adverse events observed in any potential future studies of these product candidates;

- our ability to enter into new collaborative arrangements with respect to our product candidates;
- the terms and timing of any future collaborative, licensing or other arrangements that we may establish;
- our ability to raise additional capital to carry through with our clinical development plans and current and future operations and the terms of any related financing arrangements;
- the timing of achievement of, or failure to achieve, our and any potential future collaborators' clinical, regulatory and other milestones, such as the commencement of clinical development, the completion of a clinical trial or the receipt of regulatory approval;
- announcement of FDA approval or non-approval of our product candidates or delays in or adverse events during the FDA review process;
- actions taken by regulatory agencies with respect to our product candidates or products, our clinical trials or our sales and marketing activities, including regulatory actions requiring or leading to restrictions, limitations and/or warnings in the label of an approved product candidate;
- uncontemplated problems in the supply of the raw materials used to produce our product candidates;
- the commercial success of any product approved by the FDA or its foreign counterparts;
- introductions or announcements of technological innovations or new products by us, our potential future collaborators, or our competitors, and the timing of these introductions or announcements;
- market conditions for equity investments in general, or the biotechnology or pharmaceutical industries in particular;
- we may have limited or very low trading volume that may increase the volatility of the market price of our ADSs;
- regulatory developments in the United States and foreign countries;
- changes in the structure or reimbursement policies of health care payment systems;
- any intellectual property infringement lawsuit involving us;
- actual or anticipated fluctuations in our results of operations;
- changes in financial estimates or recommendations by securities analysts;
- hedging or arbitrage trading activity that may develop regarding our ADSs;
- regional or worldwide recession;
- sales of large blocks of our Ordinary Shares or ADSs;
- sales of our Ordinary Shares or ADSs by our executive officers, directors and significant stockholders;
- managerial costs and expenses;
- changes in accounting principles; and
- the loss of any of our key scientific or management personnel.

The stock markets in general, and the markets for biotechnology stocks in particular, have experienced significant volatility that has often been unrelated to the operating performance of particular companies. The financial markets continue to face significant uncertainty, resulting in a decline in investor confidence and concerns about the proper functioning of the securities markets, which decline in general investor confidence has resulted in depressed stock prices for many companies notwithstanding the lack of a fundamental change in their underlying business models or prospects. These broad market fluctuations may adversely affect the trading price of our Ordinary Shares.

In the past, class action litigation has often been instituted against companies whose securities have experienced periods of volatility in market price. Any such litigation brought against us could result in substantial costs, which would hurt our financial condition and results of operations and divert management's attention and resources, which could result in delays of our clinical trials or commercialization efforts.

Insiders have control over us which could delay or prevent a change in corporate control or result in the entrenchment of management and/or the board of directors.

As of October 23, 2013, our directors, executive officers and principal shareholders, together with their affiliates and related persons, beneficially own, in the aggregate, approximately 13.7% of our outstanding Ordinary Shares (approximately 16.6% of our Ordinary Shares on a fully diluted basis). These shareholders, if acting together, may have the ability to impact the outcome of matters submitted to our shareholders for approval, including the election and removal of directors and any merger, consolidation, or sale of all or substantially all of our assets. In addition, these persons, acting together, may have the ability to control the management and affairs of our company. Accordingly, this concentration of ownership may harm the market price of our ADSs by:

- delaying, deferring, or preventing a change in control;
- entrenching our management and/or the board of directors;
- impeding a merger, consolidation, takeover, or other business combination involving us; or
- discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of us.

We do not anticipate paying cash dividends, and accordingly, shareholders must rely on the appreciation in our ADSs 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 ADSs will depend upon any future appreciation in their value. There is no guarantee that our ADSs will appreciate in value or even maintain the price at which our shareholders have purchased their shares.

We will be required to evaluate our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002, and any adverse results from such evaluation could result in a loss of investor confidence in our financial reports and have an adverse effect on the price of our ADSs.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we will be required to furnish a report by our management on our internal control over financial reporting for fiscal 2013, which is the year following our first annual report required to be filed with the SEC. When required, such report will contain, among other matters, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management. If we are unable to assert that our internal control over financial reporting is effective, we could lose investor confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on the price of our stock ADSs.

Our independent registered public accounting firm is not required to formally attest to the effectiveness of our internal control over financial reporting until the later of the year following our first annual report required to be filed with the SEC, or the date we are no longer an "emerging growth company." At such time, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our controls are documented, designed or operating. Our remediation efforts may not enable us to avoid a material weakness in the future. We will remain an emerging growth company" for up to five years, although if the market value of our ADSs that is held by non-affiliates exceeds $700 million as of any June 30 before that time, we would cease to be an "emerging growth company" as of the following December 31. Furthermore, as a result of the extended time period afforded us as an "emerging growth company," the effectiveness of our internal control over financial reporting may not be as transparent to our investors as they may otherwise expect of a public reporting company, which could further impact investor confidence in the accuracy and completeness of our financial reports.

We will incur increased costs and demands upon management as a result of complying with the laws and regulations affecting public companies, which could harm our operating results.

As a public company, we will incur significant legal, accounting and other expenses, including costs associated with public company reporting requirements. We will also incur costs associated with current corporate governance requirements, including requirements under Section 404 and other provisions of SOX, as well as rules implemented by the SEC or any stock exchange or inter-dealer quotations system on which our ADSs may be listed in the future. The expenses incurred by public companies for reporting and corporate governance purposes have increased dramatically in recent years. We expect these rules and regulations to substantially increase our legal and financial compliance costs and to make some activities more time-consuming and costly. We estimate these costs to be approximately $775,000 over the next fiscal year and on an annual basis thereafter. We also expect that these new rules and regulations may make it difficult and expensive for us to obtain director and officer liability insurance, and if we are able to obtain such insurance, we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage available to privately-held companies. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors or as our executive officers.

However, for as long as we remain an "emerging growth company" as defined in the JOBS Act, we intend to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies" including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a non-binding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We intend to take advantage of these reporting exemptions until we are no longer an "emerging growth company."

Under the JOBS Act, "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. In other words, an "emerging growth company" can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We are electing to delay such adoption of new or revised accounting standards, and as a result, we may not comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. As a result of such election, our financial statements may not be comparable to the financial statements of other public companies. We will remain an "emerging growth company" for up to five years, although if the market value of our ADSs that are held by non-affiliates exceeds $700 million as of any June 30 before that time, we would cease to be an "emerging growth company" as of the following December 31. After we are no longer an "emerging growth company," we expect to incur significant expenses and devote substantial management effort toward ensuring compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, when applicable to us.

We are an "emerging growth company" and our election to delay adoption of new or revised accounting standards applicable to public companies may result in our financial statements not being comparable to those of other public companies. As a result of this and other reduced disclosure requirements applicable to emerging growth companies, our ADSs may be less attractive to investors.

We are an "emerging growth company," as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, and we intend to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies" including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. In addition, Section 107 of the JOBS Act also 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. In other words, an "emerging growth company" can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We are electing to delay such adoption of new or revised accounting standards, and as a result, we may not comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. As a result of such election, our financial statements may not be comparable to the financial statements of other public companies. We cannot predict if investors will find our Ordinary Shares less attractive because we will rely on these exemptions. If some investors find our Ordinary Shares less attractive as a result, there may be a less active trading market for our ADSs and our stock price may be more volatile. We may take advantage of these reporting exemptions until we are no longer an "emerging growth company." We will remain an "emerging growth company" for up to five years, although if the market value of our Ordinary Shares that is held by non-affiliates exceeds $700 million as of any June 30 before that time, we would cease to be an "emerging growth company" as of the following December 31.

We are a foreign private issuer and you will receive less information about us than you would from a domestic U.S. corporation.

As a "foreign private issuer," we are exempt from rules under the Exchange Act that impose certain disclosure and procedural requirements in connection with proxy solicitations under Section 14 of the Exchange Act. Our directors, executive officers and principal shareholders also are exempt from the reporting and "short-swing" profit recovery provisions of Section 16 of the Exchange Act and the rules thereunder with respect to their purchases and sales of our shares. In addition, we are not required to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. We will likely no longer qualify as a "foreign private issuer" as of the June 30, 2014 measurement date and, accordingly, would become subject to the reporting requirements of U.S. companies under the Exchange Act beginning January 1, 2015. We are contemplating reorganizing our company pursuant to a court-approved scheme of arrangement under the laws of England and Wales so that a company named Celsus Therapeutics, Inc. will become the Delaware holding company and Celsus Therapeutics Plc will become a wholly-owned subsidiary of Celsus Therapeutics, Inc. If such scheme were to be approved by the court and our shareholders, our ordinary shareholders, including holders of ADSs, would become stockholders in Celsus Therapeutics, Inc., which would become the publicly traded entity. Although we are considering this option, we may decide that it is too costly and time consuming to pursue at this time.

If we are deemed or become a passive foreign investment company, or PFIC, for U.S. federal income tax purposes in 2013 or in any prior or subsequent years, there may be negative tax consequences for U.S. taxpayers that are holders of our Ordinary Shares or our ADSs.

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. Passive income for this purpose generally includes, among other things, certain dividends, interest, royalties, rents and gains from commodities and securities transactions and from the sale or exchange of property that gives rise to passive income. Passive income also includes amounts derived by reason of the temporary investment of funds, including those raised in a public offering. In determining whether a non-U.S. corporation is a PFIC, a proportionate share of the income and assets of each corporation in which it owns, directly or indirectly, at least a 25% interest (by value) is taken into account. We believe that we may be treated as a PFIC for U.S. federal income tax purposes for the current and future taxable years. If we are a PFIC in 2013, or any prior or subsequent years, and a U.S. shareholder does not make an election to treat us as a "qualified electing fund," or QEF, or make a "mark-to-market" election, then "excess distributions" to a U.S. shareholder, and any gain realized on the sale or other disposition of our Ordinary Shares or ADSs will be subject to special rules. Under these rules: (i) the excess distribution or gain would be allocated ratably over the U.S. shareholder's holding period for the Ordinary Shares (or ADSs, as the case may be); (ii) the amount allocated to the current taxable year and any period prior to the first day of the first taxable year in which we were a PFIC would be taxed as ordinary income; and (iii) the amount allocated to each of the other taxable years would be subject to tax at the highest rate of tax in effect for the applicable class of taxpayer for that year, and an interest charge for the deemed deferral benefit would be imposed with respect to the resulting tax attributable to each such other taxable year. In addition, if the U.S. Internal Revenue Service determines that we are a PFIC for a year with respect to which we have determined that we were not a PFIC, it may be too late for a U.S. shareholder to make a timely QEF or mark-to-market election. U.S. shareholders who hold our Ordinary Shares or ADSs during a period when we are a PFIC will be subject to the foregoing rules, even if we cease to be a PFIC in subsequent years, subject to exceptions for U.S. shareholders who made a timely QEF or mark-to-market election. A U.S. shareholder can make a QEF election by completing the relevant portions of and filing IRS Form 8621 in accordance with the instructions thereto. However, we do not commit to maintain calculations of earnings and profits according to U.S. tax principles, and in the absence of such calculations, shareholders may be unable to obtain a QEF election.

U.S. investors may not be able to enforce their civil liabilities against our company or our directors, controlling persons and officers.

It may be difficult for U.S. investors to bring and enforce suits against our company. We are a public limited company under the Companies Act of 2006, as amended. A majority of our directors are not residents of the United States, and all or substantial portions of their assets are located outside of the United States, predominately in the United Kingdom or Israel. As a result, it may be difficult for U.S. holders of our Ordinary Shares or ADSs to effect service of process on these persons within the United States or to realize in the United States upon judgments rendered against them. In addition, if a judgment is obtained in the U.S. courts based on civil liability provisions of the U.S. federal securities laws against us or our directors or officers, it will be difficult to enforce the judgment in the non-U.S. courts against us and any of our non−U.S. resident executive officers or directors. Accordingly, U.S. shareholders may be forced to bring actions against us and our respective directors and officers under English law and in English courts in order to enforce any claims that they may have against us or our directors and officers. The enforceability of any judgment in the United Kingdom will depend on the particular facts of the case as well as the laws and treaties in effect at the time. The United States and the United Kingdom do not currently have a treaty providing for recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. Nevertheless, it may be difficult for U.S. shareholders to bring an original action in the English courts to enforce liabilities based on the U.S. federal securities laws against us and any of our non−U.S. resident executive officers or directors.

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

Holders of our ADSs 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 ADSs. Under our amended and restated memorandum and articles of association, the minimum notice period required to convene an Annual General Meeting is no less than 21 clear days' notice and 14 clear days' notice for a general meeting. When a general meeting is convened, holders of our ADSs 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 ADSs 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 ADSs in a timely manner, but we cannot assure them that they will receive the voting materials in time to ensure that they can instruct the depositary to vote their ADSs. Furthermore, the depositary and its agents will not be 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 ADSs may not be able to exercise their right to vote and they may lack recourse if their ADSs are not voted as they requested. In addition, in the capacity as an ADS holder, they will not be able to call a shareholders' meeting.

The depositary for our ADSs will give us a discretionary proxy to vote our Ordinary Shares underlying ADSs if a holder of our ADSs does not vote at shareholders' meetings, except in limited circumstances, which could adversely affect their interests.

Under the deposit agreement for the ADSs, the depositary will give us a discretionary proxy to vote our Ordinary Shares underlying ADSs at shareholders' meetings if a holder of our ADSs does not vote, unless:

- we have failed to timely provide the depositary with our notice of meeting and related voting materials;
- 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 ADSs cannot prevent our Ordinary Shares underlying such ADSs 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.

Holders of our ADSs may be subject to limitations on transfers of ADSs.

ADSs are transferable on the books of the depositary. However, the depositary may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depositary may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary deems it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

The rights of holders of our ADSs to participate in any future rights offerings may be limited, which may cause dilution to their holdings and they may not receive cash dividends if it is impractical to make them available to them.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to holders of our ADSs in the United States unless we register the rights and the securities to which the rights relate under the Securities Act or an exemption from the registration requirements is available. Also, under the deposit agreement, the depositary will not make rights available to holders of our ADSs unless either both the rights and any related securities are registered under the Securities Act, or the distribution of them to ADS holders is exempted from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, holders of our ADSs may be unable to participate in our rights offerings and may experience dilution in their holdings.

In addition, the depositary has agreed to pay to holders of our ADSs the cash dividends or other distributions it or the custodian receives on our Ordinary Shares or other deposited securities after deducting its fees and expenses. Holders of our ADSs will receive these distributions in proportion to the number of Ordinary Shares their ADSs represent. However, the depositary may, at its discretion, decide that it is inequitable or impractical to make a distribution available to any holders of ADSs. For example, the depositary may determine that it is not practicable to distribute certain property through the mail, or that the value of certain distributions may be less than the cost of mailing them. In these cases, the depositary may decide not to distribute such property and holders of our ADSs will not receive any such distribution.

Risks Related to the Offering

Upon effectiveness of this Form F-1, the availability of a substantial number of shares for resale may adversely impact any trading market that may develop for our ADSs.

Following the effective date of this registration statement, a large number of ADSs will become available for sale in the public market. In addition, as of October 23, 2013, not including all securities underlying the Warrants, there are approximately 40,227.953 Ordinary Shares outstanding, as well as 2,138,990 options to purchase Ordinary Shares, and 3,015,478 warrants to purchase Ordinary Shares. The availability of a substantial number of shares for resale under this prospectus or pursuant to Rule 144 promulgated under the Securities Act may adversely impact any trading market that may develop for our ADSs.

The resale of these ADSs by the Selling Shareholders could depress the market price of our ADSs.

We are registering an aggregate of 27,264,086 Ordinary Shares represented by ADSs under this registration statement. Depending upon market liquidity at the time, the Selling Shareholders' sale of the ADSs into the public market under this prospectus could cause the trading price of our ADSs to decline. The sale of a substantial number of our ADSs under this offering, or anticipation of such sales, could make it more difficult for us to sell equity or equity-related securities in the future at a time and at a price that we might otherwise wish to effect sales.

FORWARD-LOOKING STATEMENTS

The Securities and Exchange Commission, or the SEC, encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. This registration statement contains forward-looking statements.

Words such as "may," "anticipate," "estimate," "expects," "projects," "intends," "plans," "believes" and words and terms of similar substance used in connection with any discussion of future operating or financial performance, identify forward-looking statements. Forward-looking statements represent management's present judgment regarding future events and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. These risks include, but are not limited to, risks and uncertainties regarding our preclinical studies, our ability to conduct clinical trials of our product candidates and the results of such trials, as well as risks and uncertainties relating to litigation, government regulation and third-party reimbursement, economic conditions, markets, products, competition, intellectual property, services and prices, key employees, future capital needs, dependence on third parties and other factors. Please also see the discussion of risks and uncertainties under "Risk Factors" contained in this registration statement.

In light of these assumptions, risks and uncertainties, the results and events discussed in the forward-looking statements contained in this registration statement might not occur. Investors are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this registration statement. We are not under any obligation, and we expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise. All subsequent forward-looking statements attributable to us or to any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

USE OF PROCEEDS

The Selling Shareholders are offering all of the Ordinary Shares represented by ADSs covered by this prospectus. We will not receive any of the proceeds from the Selling Shareholders' sale of the ADSs. However, we will receive proceeds if and when the Selling Shareholders exercise their Warrants, assuming the exercise price of such Warrants has not been adjusted pursuant to the terms thereof and they are not exercised under conditions allowing them to exercise on a cashless basis. We intend to use such proceeds for clinical project development, working capital and general corporate purposes.

We are paying all expenses incurred in connection with the registration of the ADSs offered by this prospectus other than expenses of the Selling Shareholders and transfer or conversion expenses. The Selling Shareholders will be responsible for all sales commission, brokerage fees and related expenses in connection with their sale of the ADSs.

PRICE RANGE OF OUR ADSs

Our ADSs have been quoted on the OTCQB and OTCBB under the symbol "CLSXY" since September 16, 2013 and under the symbol "MRRBY" since February 19, 2013. A very limited public market exists for our ADSs and we cannot assure you that our Ordinary Shares will be listed on any securities exchange or that an active trading market will ever develop for any of our securities. Since our ADSs were first quoted on the OTCQB and OTCBB on February 19, 2013, 2013, a minimal number of ADSs have traded at prices ranging from $3.00 to $4.00 per ADS, and the bid and ask as of October 23, 2013 was $3.00-$4,00 per ADS.

DIVIDEND POLICY

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 Ordinary Shares will depend upon any future appreciation in their value. There is no guarantee that our Ordinary Shares will appreciate in value or even maintain the price at which our shareholders have purchased their shares.

CAPITALIZATION

The following table sets forth our unaudited consolidated capitalization as determined in accordance with GAAP as of June 30. 2013. This table should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere in this prospectus.

	As of June 30, 2013 (in 000's)
Long-term liabilities:	
Liability related to shares, stock options and warrants	1,808
Shareholders' deficiency:	
Share capital	258
Additional paid-in capital	14,333
Deficit accumulated during the development stage	(19,618)
Total shareholder's deficiency	(5,027)
Total capitalization (long-term liabilities and equity) (1)	(3,219)

(1) The above capitalization table does not include the pro forma effect of the following equity transactions and the registration of shares for trading (as if recorded on June 30, 2013):

The consideration for the shares and warrants that were issued between July 1, 2013 and September 17, 2013 in the amount of $90,300, from which approximately $7,000 will be recorded as liability related to warrants and $83,000 will be recorded in additional paid in capital and for the shares that were issued in September 2013 in the amount of approximately $12,516,000

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

You should read the following discussion of our operating and financial condition and prospects in conjunction with the financial statements and the notes thereto included elsewhere in this Registration Statement on Form F-1. 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 Registration Statement on Form F-1.

Overview

Celsus is a biopharmaceutical company dedicated to the discovery and development of novel, first-in-class, non-steroidal, synthetic anti-inflammatory drugs. We believe that we have created a new class of synthetic drugs that we term Multifunctional Anti-Inflammatory Drugs representing a new multi-drug platform for the treatment of a wide range of inflammatory diseases and conditions. For decades, steroids have been the most commonly used anti-inflammatory drugs in the world, used extensively to treat inflammatory diseases and allergies. However, steroids are associated with severe side effects, such as metabolic changes, weight gain, changes in blood pressure, diabetes, cataract and glaucoma, psychosis and depression. These side effects have led to reluctance by both medical providers and their patients to use these drugs, providing an unmet need in multiple disease markets for safer alternatives to steroids.

In general, inflammation is a defense mechanism protecting our bodies from pathogenic infection (as part of our immune system). However, when inflammation is triggered for the wrong reasons (i.e. not as a reaction to infection) or is unable to shut down these result in an inflammatory disease. Since each organ in the body is capable of protecting itself from pathogens using inflammation, each organ can suffer from an inflammatory disease or condition.

Inflammatory diseases therefore manifest in a wide range of symptoms, affecting any organ in the body and have diverse causes. Inflammatory diseases encompass such diverse diseases as chronic gastrointestinal diseases (e.g. Crohn's disease and colitis), skin inflammations (e.g. dermatitis, eczema, psoriasis and rosacea), cardiovascular diseases (e.g. restenosis, thrombosis and acute cardiovascular syndrome), diseases of the eye (e.g. dry eye, uveitis, and conjunctivitis), disease of the central nervous system (e.g. multiple sclerosis) and even conditions affecting multiple organs (e.g. sepsis, lupus and scleroderma). However, while the causes and symptoms of these diseases are diverse, their treatment is often the same: anti-inflammatory drugs.

The technology for Celsus's product candidates is based on research conducted by Prof. Saul Yedgar, our principal shareholder, at the Hebrew University in Jerusalem, Israel. On November 27, 2002, Morria Biopharmaceuticals Inc., or Morria USA, a Delaware corporation, entered into a license agreement with Yissum, the research and development arm of the Hebrew University, granting Morria USA an exclusive, global license to develop Yissum's technology in the field of lipid conjugates that may halt and/or minimize the inflammatory process for the treatment of disease.

We currently have two novel product candidates in our clinical pipeline, both of which are in Phase 2 clinical trials: MRX-4, a nasal spray for treating allergic rhinitis (or hay fever), and MRX-6, a topical cream for treating contact dermatitis (a common type of eczema). We are also undertaking pre-clinical studies for three other product candidates: OPT-1 (for the treatment of conjunctivitis and dry eye), MRX-5 (for the treatment of inflammatory bowel disease), and CFX-1 (for the treatment of cystic fibrosis).Given the common biochemical mechanism of all inflammatory diseases, we plan to gradually expand the application of our technology for our product candidates to other forms of inflammatory diseases in the future.

We have completed first-in-patient clinical studies (Phase 2a) of our two lead product candidates in South Africa and Israel, respectively: MRX-4, a nasal spray for allergic rhinitis, and MRX-6, a topical cream for dermatitis. We do not anticipate further clinical trials with MRX-4 in allergic rhinitis at this time. We anticipate completing our Israel based Phase 2 MRX- 6 clinical trials by second half 2014 and submitting an application for the FDA's Investigational New Drug, or IND, program for MRX-6 by the second half of 2014. We potentially also plan to submit an IND for OPT-1 by the end of 2014. If these applications are approved, we intend to seek licensing arrangements with international pharmaceutical companies.

We have also initiated a number of preclinical studies for the development of drugs for inflammatory eye diseases (OPT-1), inflammatory bowel disease (MRX-5) and cystic fibrosis (CFX-1). We intend to conduct such studies throughout 2013 and 2014. OPT-1 pre-clinical studies planned to take place during 2013 and 2014 include synthesizing and formulating the drug, conducting safety studies and animal model optimization screening. MRX-5 and CFX-1 pre-clinical studies are intended to be initiated in the first half of 2014, in which we intend to synthesize and formulate the drug, conduct safety studies and animal model optimization screening. These studies will continue throughout 2014.

Our research and development expenses consist primarily of salaries and related personnel expenses, fees paid to external service providers for formulation and synthesis activities, manufacturing and costs of preclinical studies and clinical trials. We primarily use external service providers to manufacture our product candidates for clinical trials and for all of our preclinical and clinical development work. 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 product candidates. We currently perform our research and development activity mainly through outsourcing to subcontractors. Our board of directors, which consists of recognized professionals in the fields of biology, medicine and finance, regularly approves our material contracts with subcontractors.

Since inception in 2005, we have generated significant losses in connection with our research and development, including the pre-clinical and clinical development of our product candidates. At June 30, 2013, we had an accumulated deficit of $19,618,000. We have not yet generated any revenues and we expect to continue to generate losses in connection with the research and development activities relating to our pipeline of product candidates. Such research and development activities are budgeted to expand over time and will require further resources if we are to be successful. As a result, we may continue to incur operating losses, which may be substantial over the next several years, and we may need to obtain additional funds to further develop our research and development programs.

Since inception, we have funded our operations primarily through the sale of equity securities and equity-linked securities.

Recent Developments

September 2013 Financing

On September 19, 2013, we entered into a Securities Purchase Agreement (the "Purchase Agreement") with certain institutional accredited investors, pursuant to which we agreed to sell, in a private placement, an aggregate of 21,958,302 ordinary shares for an aggregate purchase price of $12,516,232 (the "Offering"). The closing of the Offering occurred on September 24, 2013 (the "Closing Date") and our placement agents received an aggregate of approximately $$613,000 from us.

As a result of price protection provisions from investment agreements with previous investors, (i) an aggregate of 4,046,692 additional ordinary shares are being issued to previous investors in connection with this Offering and (ii) there will be an additional 1,259,092 ordinary shares issuable upon exercise of outstanding warrants.

We also entered into a registration rights agreement with the investors pursuant to which we agreed to file a registration statement to register the resale of the ordinary shares issued in the private placement no later than the 30th day after the Closing Date. We agreed to cause the registration statement to be declared effective within 60 calendar days after the Closing Date, or within 120 calendar days after the Closing Date in the event the Registration Statement is reviewed by the SEC (the "Effective Date"). To the extent the registration statement is not filed by the filing deadline or declared effective by the agreed upon effectiveness deadline, we agreed to pay to each investor holding registrable securities an amount in cash equal to one and one half percent (1.5%) of such investor's original investment amount on the date of such failure and on every 30-day anniversary of such failure until such failure has been cured, pro rated for periods totaling less than 30 days. In the event we fail to make such payments in a timely manner, such payments will bear interest at the rate of 1.0% per month (prorated for partial months) until paid in full.

Critical Accounting Policies and Use of Estimates

The preparation of the consolidated financial statements in conformity with United States Generally Accepted Accounting Principles requires management to make estimates, judgments and assumptions. Our management believes that the estimates, judgments and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

JOBS Act

On April 5, 2012, the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, was enacted. 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. In other words, an "emerging growth company" can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We are electing to delay such adoption of new or revised accounting standards, and as a result, we may not comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Additionally, we are in the process of evaluating the benefits of relying on other exemptions and reduced reporting requirements provided by the JOBS Act.

Subject to certain conditions set forth in the JOBS Act, as an "emerging growth company", we intend to rely on certain of these exemptions, including without limitation, (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 PCAOB 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 for a period of five years following the completion of our initial public offering or until we are no longer an "emerging growth company," whichever is earlier.

Stock-Based Compensation and Fair Value of Ordinary Shares

We account for stock-based compensation in accordance with ASC 718 and ASC505, "Compensation - Stock Compensation," that require the measurement and recognition of compensation expense based on estimated fair values for all share-based payment awards made to employees, directors and non-employees. ASC 718 requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in our consolidated statement of operations.

We recognize compensation expenses for the value of our awards granted based on the straight-line method over the requisite service period of each of the awards, net of estimated forfeitures. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Estimated forfeitures are based on actual historical pre-vesting forfeitures.

We selected the Black-Scholes-Merton ("**Black-Scholes**") option-pricing model as the most appropriate fair value method for our stock-options awards and values stock based on the market value of the underlying shares at the date of grant. The option-pricing model requires a number of assumptions. The computation of expected volatility is based on realized historical stock price volatility of peer companies. The expected term of options granted is based on the "Simplified" method acceptable by ASC 718. For non-employees, the expected term assumption is based on the contractual term. The risk free interest rate assumption is the implied yield currently available on British government bond and the U.S Treasury yield zero-coupon issues with a remaining term equal to the expected life of the Company's options. The dividend yield assumption is based on our historical experience and expectation of no future dividend payouts and may be subject to substantial change in the future. We have historically not paid cash dividends and have no foreseeable plans to pay cash dividends in the future.

Since all of our financing transactions through October 2011 were in consideration for Ordinary Shares, the fair value of the Ordinary Shares underlying the valuation of the options, warrants and deferred shares through October 2011, had been determined by management, based on the Ordinary Share prices in the equity financing rounds at adjacent dates to each measurement date. In determining the Ordinary Shares' fair value, the Company considered the share prices in the financing rounds both before and after each measurement date. Our share issuances were as follows:

In 2009, we issued in several financing rounds, 410,097 Ordinary Shares of £0.01 par value each at £0.8 ($1.16-$1.32) per share. The proceeds amounted to $522,000. Therefore, in measuring fair value of the options, warrants and deferred shares in 2009, we used an Ordinary Share price of £0.8 ($1.16-$1.32) per share in our underlying assumptions.

During May to August 2010, we issued, in several financing rounds, 200,778 Ordinary Shares of £0.01 par value each at £1 ($1.43-$1.57) per share. The proceeds amounted to $312,000. No options or warrants were granted during 2010. However, in measuring fair value of options, warrants and deferred shares in 2010, we used an Ordinary Share price of £1 ($1.43-$1.57) per share in our underlying assumptions.

During March to August 2011, we issued, in several financing rounds, 522,026 Ordinary Shares of £0.01 par value each, in consideration for $951,000, at prices of $1.63-$1.95 per share. Therefore, in measuring the fair value of options, warrants and deferred shares during March to September 2011, we used an Ordinary Share price of $1.63-$1.95 per share in our underlying assumptions.

In measuring the fair value of options, warrants and deferred shares in December 2011, for the first time we used a valuation method to determine our Ordinary Share price. That is, because in January 2012, for the first time, we issued in a financing a unit that is composed of shares and warrants. Between January and September 2012, we issued to investors 260,875 Ordinary Shares, £0.01 par value each, at a price of $2.00 per unit, for total gross proceeds of approximately $522,000. The investors were also issued warrants to purchase 280,106 Ordinary Shares, at an exercise price of $2.00. 39,500 of such warrants granted in January 2012 at an exercise price of $1.00 were modified in April 2012, to a total of 79,000 at an exercise price of $2.00 per share. We accounted for these changes as modifications in accordance with ASC 718. We calculated the incremental value of these modifications and recorded a deemed dividend to additional paid-in capital. In June 2012, we issued 10,000 of Ordinary Shares, £0.01 par value each, at a price of $2.25 per share, for total gross proceeds of approximately $23,000. This financing round was furnished with 50% warrant coverage, to purchase 5,000 Ordinary Shares, at an exercise price of $2.25 per share. In August 2012, we issued 232,558 Ordinary Shares, £ 0.01 par value each, at a price of $1.72 per share, for total gross proceeds of approximately $400,000. The investor also received warrants to purchase 232,558 Ordinary Shares, at an exercise price of $1.72 per share.

The generally accepted approaches to valuation are commonly referred to market approach, discounted cash flows and asset-based approach. Since an intangible asset comprises our core value, the relevance of the asset approach tends to diminish significantly, and it will likely be more reliable to measure the value of intangible assets in aggregate through the use of an income or market approach method. We currently have substantive expense history, because product development is under way and we do not have product revenue. At this stage, we still have significant difficulty to project expected discounted cash flows and therefore we did not use the discounted cash-flow approach.

Consequently, in determining the Ordinary Share value we applied the market approach taking into account our actual equity transactions. As of June 30, 2013, the value was $1.71 and ranged between $1.67-$1.73 in 2013. In 2012, the value ranged from $1.54-$1.72 and was $1.58 as of December 31, 2011. Considering that the equity transactions included warrant coverage, and the warrants and shares held anti-dilution rights, we isolated the stand-alone value of the common share by subtracting the value of the warrants and anti-dilution rights by performing numerous iterations in the Black Scholes option-pricing model. The major assumptions used for the valuation were the expected life of the options considering the company's stage of development, the volatility that was based comparable companies, and risk-free interest rate based on the yield of U.S. Treasury bonds.

In determining the valuations of our Ordinary Shares, we also considered the guidelines outlined in the "American Institute of Certified Public Accountants Practice Aid, Valuation of Privately-Held-Company Equity Securities Issued as Compensation." The assumptions we use in the valuation model are based on future expectations combined with management's judgment. In the absence of a public trading market, our management, exercised significant judgment and considered numerous objective and subjective factors to determine the fair value of our Ordinary Shares as of each date of measurement of our options, warrants and deferred shares, including the following factors: arm's length private transactions involving our stock, our operating and financial performance, market conditions, developmental milestones achieved, business risks, and management and board experience.

We apply ASC 718 and ASC 505-50, "Equity-Based Payments to Non-Employees" with respect to options, warrants and deferred shares issued to non-employees. ASC 718 requires the use of option valuation models to measure the fair value of the options, warrants and deferred shares at the measurement date. Since the exercise price of some of the options, warrants and deferred shares is denominated in a currency that is different from our functional currency, we account for such warrants as a liability.

Convertible Notes and Warrants

In connection with the April 2012 Financing, we applied ASC 470-20, "Debt with Conversion and Other Options" ("**ASC 470-20**"). In accordance with ASC 470-20, we first allocated the proceeds received to the detachable warrant, freestanding liability instrument that is measured at fair value at each reporting date, based on its fair value, with changes in the fair values being recognized in our statement of operations as financial income or expense. The fair value of Warrants granted was valued by using the Black-Scholes call option pricing. The anti-dilution rights of the Warrants were calculated by using Black-Scholes put option using the same parameters as the warrants call option. The computation of expected volatility is based on realized historical stock price volatility of peer companies. The expected term is based on the contractual term. The risk free interest rate assumption is the implied yield currently available on U.S Treasury yield zero-coupon issues with a remaining term equal to the expected life of the options. The dividend yield assumption is based on our historical experience and expectation of no future dividend payouts and may be subject to substantial change in the future. We have historically not paid cash dividends and have no foreseeable plans to pay cash dividends in the future. The initial fair value of the detachable warrant on April 4, 2012 was $750,000. On December 31, 2012, the fair value of the detachable warrant was $402,000. The change in fair value in the amount of $348 was recognized as financial expense in the statement of operations. On June 30, 2013, the fair value of the detachable warrant was $597,000. The change in fair value in the six months ended June 30, 2013 in the amount of $195 was recognized as financial expense in the statement of operations.

The conversion feature was not defined as a derivative instrument according to ASC 815, "Derivatives and Hedging" ("**ASC 815**") since our shares were not traded on the commitment date. We recognized the embedded beneficial conversion feature on the commitment date, in accordance with the guidelines of ASC 470-20. The beneficial conversion feature was measured by allocating a portion of the proceeds equal to the intrinsic value of the feature to additional paid-in-capital. The intrinsic value of the feature was calculated on the commitment date using the effective conversion price which had resulted subsequent to the allocation of the proceeds between the Notes and warrants. On the commitment date, we recorded a beneficial conversion feature in the amount of $250,000, in accordance with Statement of Accounting Standard Codification No. 470-20. The notes were repaid in January 2013, before our shares were traded and the conversion feature was qualified as a derivative according to ASC 815, therefore we were not required to re-measure the conversion feature as a liability related to warrants due to the "full ratchet" anti-dilution adjustments.

In relation to the issuances of August Financing through November Financing, the Company first allocated the proceeds to the detachable warrant, that due to the most favored nation terms and in accordance with ASC 815 is being considered a freestanding liability instrument that is measured at fair value at each reporting date, based on its fair value, with changes in the fair values being recognized in the Company's statement of comprehensive loss as financial income or expense. The remaining proceeds were allocated to the shares and were recorded to equity. The issuance costs in relation to the November Financing in the amount of $ 190 (the "2012 Issuance Costs") were allocated between the warrants and the shares in proportion to the allocation of the proceeds. The portion of the 2012 Issuance Costs that were allocated to the warrants in the amount of $ 27 was recorded as financial expense in the Company's statement of comprehensive loss. The portion of the 2012 Issuance Costs that were allocated to the shares in the amount of $ 163 was recorded to additional paid in capital.

The fair value of warrants granted was valued by using the Black-Scholes call option pricing model. The anti-dilution adjustments of August Most Favored Nation and the November Most Favored Nation were calculated by using Black-Scholes put option model since its similar to put options by providing a guaranteed price for an underlying instrument and offer insurance against dilution. The Company used different parameters for the warrants call option and the warrants put option since the expected life of the most favored nation terms was shorter than the expected life of the warrants.

In addition, in relation to the 2013 financings we allocated the proceeds to the detachable warrants, due to the most favored nation terms, with changes in the fair values being recognized in the Company's statement of comprehensive loss as financial income or expense. The initial value of all the 2013 warrants totaled approximately $464 and the value as of June 30, 2013 was $773. $309 was recorded as financial expense for the six months-ended June 30, 2013.

Results of Operations

For the six months ended June 30, 2013 and June 30, 2012

Research and development expenses

Research and development expenses for the six months ended June 30, 2013 were approximately $831,000 compared to $179,000 for the six months ended June 30, 2012. This 364% or $652,000 increase was due to higher expenses of approximately $571,000 for formulation and synthesis activities, manufacturing and clinical trials, $47,000 for salary expenses and $38,000 for administrative expenses related to research activities in 2013 as compared to 2012 offset by lower stock-based compensation expenses of $4,000 in 2013.

Provided that we are able to raise additional capital, we expect our research and development expenses will increase over the next several years as we conduct additional clinical trials to support the clinical development of MRX-6, and advance other product candidates into pre-clinical and clinical development.

General and administrative expenses

General and administrative expenses for the six months ended June 30, 2013 were approximately $870,000 compared to $1,078,000 for the six months ended June 30, 2012. This 19% or $208,000 decrease was primarily due to lower expenses of approximately $262,000 from stock-based compensation expense related to warrants granted to board members and consultants, $87,000 of legal, consulting, professional and accounting fees and $22,000 for board fees in 2013 as compared to 2012 offset by higher expenses of $141,000 for salaries and $22,000 for insurance and other general expenses in 2013.

We expect our general and administrative expenses to increase due to increased legal, accounting and professional fees associated with being a publicly reporting company in the United States.

Financial income/expenses

Financial expense for the six months ended June 30, 2013 was approximately $995,000 compared to financial expense of $118,000 for the six months ended June 30, 2012. This change was primarily attributed to the revaluation of the warrant liabilities and amortization of convertible notes' discount.

For the years ended December 31, 2012 and December 31, 2011

Research and development expenses

Research and development expenses for the year ended December 31, 2012 were approximately $1,483,000 compared to $841,000 for the year ended December 31, 2011. This 76% or $642,000 increase was due to higher expenses of approximately $476,000 for formulation and synthesis activities, manufacturing and clinical trials, $144,000 for salary expenses , $25,000 for indirect expenses, offset by $3,000 higher stock-based compensation expenses in 2011.

Provided that we are able to raise additional capital, we expect our research and development expenses will fluctuate over the next several years as we conduct additional clinical trials to support the clinical development of MRX-4 and MRX-6, and advance other product candidates into pre-clinical and clinical development. Without additional capital, we will not be able to perform research and development activities with respect to our product candidates.

General and administrative expenses

General and administrative expenses for the year ended December 31, 2012 were approximately $2,184,000 compared to $1,406,000 for the year ended December 31, 2011. This 55% or $778,000 increase was primarily due to higher expenses of approximately $329,000 of stock-based compensation expense related to warrants granted to employees, board members and consultants, $301,000 for consulting, professional and accounting fees, $130,000 for legal fees and $120,000 for salaries, offset by lower expenses of $36,000 for board fees and $66,000 of other miscellaneous expenses.

We expect our general and administrative expenses to increase due to increased compensation, legal, accounting and professional fees associated with becoming a publicly reporting company in the United States.

Financial income/expenses

Financial expenses for the year ended December 31, 2012 was approximately $601,000 compared to financial income of $128,000 for the year ended December 31, 2011. This change was primarily attributed to $898,000 of interest expense, $137,000 of issuance costs related to the April 2012 Financing, offset by $418,000 for the revaluation of the deferred shares and warrant liabilities and British Pound and US Dollar exchange rate differences and bank fees of $16,000 due to the year-end exchange rates were different than the average rates during the year.

For the years ended December 31, 2011 and December 31, 2010

Research and development expenses

Research and development expenses for the year ended December 31, 2011 were approximately $841,000 compared to $247,000 for the year ended December 31, 2010. This 240% or $594,000 increase was due to higher expenses of approximately $543,000 for formulation and synthesis activities, manufacturing, preclinical studies, toxicology studies and clinical trials and $58,000 for salary expenses, offset by $7,000 higher stock-based compensation expenses in 2010.

Provided that we are able to raise additional capital, we expect our research and development expenses will fluctuate over the next several years as we conduct additional clinical trials to support the clinical development of MRX-4 and MRX-6, and advance other product candidates into pre-clinical and clinical development. Without additional capital, we will not be able to perform research and development activities with respect to our product candidates.

General and administrative expenses

General and administrative expenses for the year ended December 31, 2011 were approximately $1,406,000 compared to $545,000 for the year ended December 31, 2010. This 158% or $861,000 increase was primarily due to higher expenses of approximately $343,000 for legal fees and $260,000 for consulting, professional and accounting fees, $140,000 of stock-based compensation expense related to warrants granted to board members and consultants, $64,000 for board fees, $21,000 for salaries, $10,000 for insurance costs and $23,000 of other miscellaneous expenses.

We expect our general and administrative expenses to increase due to increased legal, accounting and professional fees associated with becoming a publicly reporting company in the United States.

Financial income/expenses

Financial income for the year ended December 31, 2011 was approximately $128,000 compared to $117,000 for the year ended December 31, 2010. This increase was primarily attributed to the revaluation of the deferred shares liabilities and British Pound and US Dollar exchange rate differences due to the year-end exchange rates were different than the average rates during the year.

Liquidity and Capital Resources

Net cash used in operating activities was approximately $1,399,000 during the six months ended June 30, 2013 compared to $775,000 used by operating activities during the six months ended June 30, 2012. The 81% increase in cash flow used in operating activities of approximately $624,000 can be primarily attributed to higher research and development activities including salaries.

In both 2013 and 2012, we had no investment activity and anticipate our investment will be minimal in the future.

Net cash provided by financing activities was approximately $296,000 during the six months ended June 30, 2013, compared to approximately $1,308,000 during the six months ended June 30, 2012. Financing activities in fiscal 2013 and 2012 were comprised of cash proceeds from the issuance of shares, warrants and convertible notes offset by the repayment of the convertible notes in 2013.

As of June 30, 2013, we had approximately $1,000 in cash and cash equivalents, a decrease of approximately $538,000 from June 30, 2012. In addition, as of June 30, 2013, we had accumulated losses in the total amount of approximately $19,618,000 and had cumulative negative cash flow from operating activity in the amount of approximately $12,147,000.

Since inception, we have funded our operations primarily through the sale of equity securities and equity-linked securities. In the months of January through November 2012, we sold Ordinary Shares for net proceeds of approximately $2,448,000. Furthermore, in April 2012, we completed a private placement in which we sold an aggregate of $1,100,000 principal amount of convertible notes for net proceeds of $1,000,000 (which was repaid on January 2, 2013), and in November 2012, we completed a private placement in which we sold an aggregate 751,500 Ordinary Shares for net proceeds of $1,503,000. From January 2013 through September 17, 2013, we raised an aggregate of approximately $1,706,300 in private placements of ordinary shares and warrants. On September 24, 2013, we completed a private placement with certain institutional accredited investors in which we sold an aggregate of 21,958,302 ordinary shares for an aggregate purchase price of $12,516,232. As of October 23, 2013, we have existing cash and investment securities of approximately$9.8 million.

We are constantly attempting to address our liquidity and will seek additional fund raisings when necessary to implement our operating plan. Failure to do so may delay research and development activities. We cannot be certain that such funding will be available on acceptable terms or available at all. To the extent that we raise additional funds by issuing equity securities, our stockholders may experience significant dilution. If we are unable to raise funds when required or on acceptable terms, we may have to curtail, or possibly cease operations. We believe that our existing cash and investment securities will be sufficient to support our current contemplated operating plan through March 2015. We will require additional capital in order to complete the clinical development of and to commercialize our product candidates and our pre-clinical product candidates. Our future capital requirements will depend on many factors that are currently unknown to us, including:

- the timing of initiation, progress, results and costs of our clinical trials for MRX-6; the timing and costs related to the filing of INDs for MRX-6 and OPT-1; the results of preclinical studies of OPT-1, MRX-5 and CFX-1 and the timing of initiation, progress, results and costs of any clinical trials that we may initiate based on the preclinical results;

- the costs of synthesis and formulation;

- the costs of raw materials in order to produce our product candidates;
- the costs of producing the product candidates;
- the costs of establishing commercial manufacturing arrangements and of establishing sales and marketing functions, if needed;
- the cost of scale-up and optimization;
- the scope, progress, results, and cost of preclinical development, clinical trials, and regulatory review of any new product candidates for which we may initiate development;
- the cost of filing regulatory applications for our product candidates;
- the costs of preparing, filing, and prosecuting patent applications and maintaining, enforcing, and defending intellectual property-related claims;
- our ability to establish research collaborations and strategic collaborations and licensing or other arrangements on terms favorable to us;
- the costs to satisfy our obligations under potential future collaborations; and
- the timing, receipt, and amount of sales, milestone payments, licensing fees or royalties, if any, from any approved product candidates.

Pursuant to the terms of the 2013 Financing Warrants, we may raise additional capital upon terms no more favorable to the new investors than those offered to such investors. In addition, if we make certain dilutive issuances, the exercise price of the warrants will be lowered to the per share price paid in the applicable dilutive issuance. Such terms and conditions may make it more difficult to raise additional capital on terms favorable to us.

Research and Development, Patents and Licenses, etc.

Our research and development expenditures were $831,000 in the six months ended June 30, 2013 and $1,483,000, $841,000 and $247,000 in the years ended December 31, 2012, 2011 and 2010, respectively. Most of such research and development expenditures was in the form of payments to third parties to carry out our formulation and synthesis activities, manufacturing, preclinical and clinical research activities.

We incurred the following research and development expenses in the six months ended June 30, 2013 and in years ended 2012, 2011 and 2010:

	Six months ended June 30, 2013	2012	2011	2010
Direct Expenses:				
MRX-4	$ 472	$ 801	$ 94	$ 40
MRX-6	53	229	564	77
Other	51	70	-	-
Total operating expenses	576	1,100	658	117
Indirect Expenses:				
Staffing	236	361	182	123
Other indirect	19	22	1	7
	255	383	183	130
Total Research and Development	$ 831	$ 1,483	$ 841	$ 247

Trend Information

For a discussion of Trend information, see "Management's Discussion and Analysis of Financial Condition and Results of Operation - Overview and - Results of Operations."

Off-balance Sheet Arrangements

We currently do not have any off-balance sheet arrangements.

Tabular Disclosure of Contractual Obligations

The following table sets forth our known contractual obligations for the periods indicated therein as of December 31, 2012.

	Payments due by period				
Contractual obligations	*Total*	*Less than 1 year*	*1-3 years*	*3-5 years*	*More than 5 years*
Lease of office space	$ 1,500	$ 1,500			
Research and development-Yissum	$ 280,000	$ 70,000	$ 210,000		
Total	$ 281,500	$ 71,500	$ 210,000		

We have minimum rental commitments of approximately $500 plus VAT for each month. The lease shall continue until it is terminated with three months prior written notice. Our contingent liability as of June 30, 2013 was approximately $1,500 to be paid during 2013.

The license agreement between the Subsidiary and Yissum, pursuant to which the Subsidiary was granted a global, exclusive license, including the right to grant sublicenses, subject to receipt of the prior consent of Yissum, which shall not be unreasonably withheld, includes the exclusive rights to produce, sell, market, import, distribute, and make any use of the technology, by both the Subsidiary and the sublicensees. If Yissum fails to respond within 15 days of receipt of the Company's written notice, then Yissum shall be deemed to have given consent to such sublicenses. The license agreement is valid for 20 years or until the last to expire patent. In exchange for granting the said license to the Subsidiary, Yissum will be entitled to the following royalties:

- 4% of the total sales that the Subsidiary or a related company thereof (as this term is defined in the license agreement); and
- 18% of the total payments or royalties that the Subsidiary will be entitled to receive from sublicensees.

On June 20, 2005, the Company executed with Yissum an agreement for providing research and development services, whereby Yissum grants the Company compound development services. It has been agreed that the intellectual property and the knowledge that will accumulate during the provision of the services will be owned by Yissum. Yissum has granted the Company a license to use the results of the service provision agreement, and the permission to grant a sublicense. The service agreement was renewed several times prior to 2011. On February 28, 2011, the service provision agreement was renewed again. In consideration for the performance of services the Company agreed to pay Yissum $70 plus overhead per year, depending on the work requested by the Company to be done at the sole and exclusive option of the Company during each year of the following five years. The additional services fees shall be payable in semi-annual payments.

Quantitative and Qualitative Disclosures About Risk

You should read the following information in conjunction with "Risk Factors;" and our consolidated financial statements, including the related notes thereto, including Note 2, both of which are included elsewhere in this document. The following discussion about our financial risk management activities includes "forward-looking statements" that involve risks and uncertainties. Actual results could differ materially from those projected in these forward-looking statements.

Risk Management Framework

We are exposed to a variety of risks, including changes in foreign currency exchange risk and interest rates.

Currency Exchange Rate Sensitivity

The results of our operations are subject to currency transactional risk. Operating results and financial position are reported in local currencies and then translated into United States dollars at the applicable exchange rate for preparation of our consolidated financial statements. The fluctuation of the British Pound and Israeli Shekel in relation to U.S. dollar will therefore have an impact upon profitability of our operations and may also affect the value of our assets and the amount of shareholders' equity.

Our functional currency is the United States dollar and our activities are predominantly executed in U.S. dollars. We have done a limited number of financings, and we are not subject to significant operational exposures due to fluctuations in this currency. We have not entered into any agreements, or purchased any instruments, to hedge any possible currency risks at this time.

Interest Rate Sensitivity

We currently have no short-term or long-term debt requiring interest payments. This does not require us to consider entering into any agreements or purchasing any instruments to hedge against possible interest rate risks at this time. Our interest-earning investments are short-term. Thus, any reductions in future income or carrying values due to future interest rate declines are believed to be immaterial.

BUSINESS

Our Corporate History

The technology for Celsus's product candidates is based on research conducted by Prof. Saul Yedgar, our principal shareholder, at the Hebrew University in Jerusalem, Israel. On November 27, 2002, Morria Biopharmaceuticals Inc., or Morria USA, a Delaware corporation, entered into a license agreement with Yissum, the research and development arm of the Hebrew University, granting Morria USA an exclusive, global license to develop Yissum's technology in the field of lipid conjugates that may halt and/or minimize the inflammatory process for the treatment of disease.

In January 28, 2005, Morria USA and Morria Biopharmaceuticals Limited #5252842, a private limited liability company formed under the laws of England and Wales on October 7, 2004 (then known as "Freshname No. 333 Limited"), entered into a merger agreement. On January 19, 2005, "Freshname No. 333 Limited" changed its name to the name of "Morria Biopharmaceuticals Limited." On February 1, 2005, Morria USA sublicensed, on a global and exclusive basis, the technology it licensed from Yissum to Morria to sell, market and distribute the licensed technology as defined in the original license agreement between Morria USA and Yissum. On February 15, 2005, Morria re-registered as a non-traded public limited company under the laws of England and Wales in order to facilitate raising capital in the United Kingdom, under the current name of Morria Biopharmaceuticals PLC. Upon completion of the merger, Prof. Yedgar, Yissum, Dr. Yuval Cohen and Mark Cohen, CSS Capital managers LLP and CSS Bridge Partners LP were the shareholders of Morria.

On March 22, 2011, Morria incorporated an Israeli subsidiary, Morria Biopharma Ltd. #51-459419-1, or Morria Ltd. Morria Ltd. is fully owned by Morria. As of the date of this report, Morria Ltd. does not conduct any operations.

We recently changed corporate name to Celsus Therapeutics PLC and received shareholder approval for this change at our annual general meeting in June 2013.

Business Overview

Celsus is a biopharmaceutical company dedicated to the discovery and development of novel, first-in-class, non-steroidal, synthetic anti-inflammatory drugs. We believe that we have created a new class of synthetic drugs that we term Multifunctional Anti-Inflammatory Drugs representing a new multi-drug platform for the treatment of a wide range of inflammatory diseases and conditions. For decades, steroids have been the most commonly used anti-inflammatory drugs in the world, used extensively to treat inflammatory diseases and allergies. However, steroids are associated with severe side effects, such as metabolic changes, weight gain, changes in blood pressure, diabetes, cataract and glaucoma, psychosis and depression. These side effects have led to reluctance by the FDA, medical providers and their patients to use these drugs, providing an unmet need in multiple disease markets for safer alternatives to steroids.

In general, inflammation is a defense mechanism (part of our immune system) protecting our bodies from infection. However, when inflammation is triggered for the wrong reasons (i.e. not as a reaction to infection) or is unable to shut down, this results in an inflammatory disease. Since each organ in the body is capable of protecting itself from infections using inflammation, each organ can suffer from an inflammatory disease or condition such as allergies.

Inflammatory diseases therefore manifest in a wide range of symptoms, affecting any organ in the body and have diverse causes. Inflammatory diseases encompass such diverse diseases as respiratory diseases (e.g. allergic rhinitis, asthma, and chronic obstructive pulmonary disease (COPD)), chronic gastrointestinal diseases (e.g. Crohn's disease and ulcerativecolitis), skin inflammations (e.g. dermatitis, eczema, psoriasis and rosacea), cardiovascular diseases (e.g. restenosis, thrombosis and acute cardiovascular syndrome), diseases of the eye (e.g. dry eye, uveitis, and conjunctivitis), diseases such as arthritis and related diseases (e.g. osteo-arthritis and rheumatoid-arthritis), autoimmune diseases (e.g. lupus) and disease of the central nervous system (e.g. multiple sclerosis). However, while the causes and symptoms of these diseases are diverse, their treatment is often the same: anti-inflammatory drugs.

Product Candidates

We currently have two novel product candidates in our clinical pipeline, both of which have completed first-in-patient clinical studies (Phase 2a): MRX-4, a nasal spray for treating allergic rhinitis (or hay fever), and MRX-6, a topical cream for treating contact dermatitis (a common type of eczema). The Phase 2a clinical trial for MRX-4 was conducted under The International Conference on Harmonisation of Technical Requirements for Registration of Pharmaceuticals for Human Use, or ICH, rules, which comply with the FDA's rules. We do not anticipate further clinical trials with MRX-4 for allergic rhinitis at this time. The Phase 2a clinical trial for MRX-6 was conducted as an academic study and, thus, is neither ICH- or FDA-compliant. A second, multi-center, vehicle controlled, double blind, dose ranging study of MRX-6 study is currently underway in Israel. Results for the first part of this study were reported on May 8, 2013. These results demonstrated that MRX-6 was a safe and effective treatment for chronic hand eczema secondary to contact dermatitis, replicating the results we saw in our earlier Phase IIa trial. The data announced on May 8 were interim results from the first cohort (2% MRX-6 vs. vehicle) of a multi-center Phase II double blind, two step dose-ranging, vehicle and active control study of MRX-6 for the treatment of patients with chronic hand eczema due to allergic contact dermatitis (ACD). The results showed a 56% improvement in symptoms (dryness, scaling, redness, pruritus and fissures) from baseline in the MRX-6 treated hand/forearm, compared to a 24% improvement for vehicle ('placebo') treated hand/forearm ($p < 0.0001$). Each patient acted as his or her own control. Clinically significant benefit, defined as a $\geq 50\%$ reduction in symptoms from baseline in the MRX-6 treated hand/forearm was seen in 67% of patients. MRX-6 was found to be safe and well-tolerated, with no adverse events. The benefit was similar regardless of patient baseline score, study center or symptom sub-score.

We are also undertaking pre-clinical studies for three other product candidates: OPT-1 (for the treatment of conjunctivitis and dry eye; MRX-5 (for the treatment of inflammatory bowel disease); and CFX-1 (for the treatment of cystic fibrosis). Given the common biochemical mechanism of all inflammatory diseases, we plan to gradually expand the application of our platform technology for our product candidates to other forms of inflammatory diseases in the future, such as arthritis and related diseases (osteoarthritis and rheumatoid-arthritis).

Our corporate headquarters are located at 53 Davies Street, London W1K 5JH, United Kingdom, telephone +44-203-322-1321, and our registered office is located at 42-46 High Street, Esher, Surrey KT109QY, United Kingdom.

Our Business Strategy

Our business strategy is to expand and build our biopharmaceutical business to gradually focus on a spectrum of inflammatory diseases based on our current and upcoming first in class product candidates, that we believe will fill the current unmet need for safe and potent alternatives to steroids. As a drug development company, most of our efforts and resources to-date have been devoted to performing research and development, conducting pre-clinical studies and clinical trials, developing and protecting our intellectual property and raising capital. We intend to enter into strategic licensing arrangements with pharmaceutical companies for the commercialization of our drugs. This process will involve completing our clinical trials and obtaining regulatory approvals for manufacturing, marketing, distribution and sale of our drugs. We also intend to continue to expand the range of our products by gradually targeting additional types of inflammatory diseases.

We currently perform our research and development activity mainly through outsourcing to subcontractors. Our board of directors, which consists of recognized professionals in the fields of biology, medicine and finance, regularly approves our material contracts with subcontractors.

Our unique lead product candidates are first-in-class, novel, non-steroidal, synthetic anti-inflammatory products that address the need to inhibit sPLA2 in a broad-ranged manner while avoiding any interference with the homeostatic cPLA2 family. The lipid inhibiting moiety is responsible for inhibiting PLA2 in a unique and broad-ranged manner while the glycosaminoglycans, or GAGs, prevent the drug's penetration into the cell and any possible interference with cPLA2. Thus, unlike previous attempts at inhibiting PLA2, our product candidates remain on the cell surface and target the pathology-associated secretory PLA2 isomers (sPLA2), but do not interfere with the homeostatic isomers found inside the cell (cytosolic, cPLA2).

Steroids and Currently Available Alternatives

Steroids are the most commonly prescribed medications for inflammatory diseases because of their high potency and unparalleled formulation flexibility but are limited by their side effects that include hypertension, high glucose levels, obesity, brittle bones/osteoporosis, immunosuppression, glaucoma and psychosis. Thus, safer yet potent alternatives to steroids have long been sought to provide this unmet need. However, current alternatives to steroids, while often commercially successful, are less potent than steroids, have limited formulation flexibility and have their own potential safety concerns that relate to the risk of systemic corticosteroid absorption and include adrenal suppression, bone fracture among the elderly, and reduced bone growth and height in children. Adverse local effects may include nosebleeds, stinging, burning and dryness.

We believe that our product candidates will provide safer and more effective treatment than the current alternatives to steroids without the adverse side effects associated with steroids.

The drugs used to treat inflammatory diseases are broadly divided into two groups: steroids and non-steroidal drugs. Non-steroidal drugs, in turn, can be categorized into synthetic drugs, which include our product candidates, and biological drugs (such as monoclonal anti-body therapies).

Non-steroid synthetic drugs include the old generation of non-specific COX inhibitors, such as ibuprofen and Aspirin™ (possibly the most commonly used drug in the world), and a newer generation of specific inhibitors of COX-2, such as Celebrex® and Vioxx®. COX inhibitors are drugs that inhibit the action of the COX enzyme, which is responsible for producing factors that produce inflammation. The old generation of COX inhibitors is associated with severe gastrointestinal adverse effects. The newer generation of specific COX-2 inhibitors, originally designed to be safer, has subsequently been found to have side effects, including primarily cardiovascular complications. These side effects have led to the withdrawal the drug Vioxx® from the market and specific warnings for its related drug Celebrex™.

Non-steroid biological drugs are used to treat severe cases of inflammation. These drugs are derived from proteins, i.e., they are produced from live cells and not by way of artificial chemical synthesis. Examples of this type of drug are Enbrel® and Remicade®, which are used for treating severe rheumatoid arthritis and psoriasis as well as inflammatory bowel disease. These drugs have a number of disadvantages: the drug intake is limited to injection/IV, their cost is very high and they are associated with rare but severe side effects.

In the case of allergic rhinitis (hay fever), the most commercially successful non-steroidal anti-inflammatory drug is Singulair® (montelukast) made by Merck. Singulair® was launched in 1998 for the treatment of asthma. In 2003, the FDA approved Singulair for use in allergic rhinitis. Singulair has a modest potency compared to steroids but can be formulated as a pill (and not as either an inhaler or nasal spray), and it is not associated with severe side effects (unlike steroids). In 2011, Singulair® global sales were $5 billion of which $3.4 billion (70%) were in the United States alone. Approximately 25% of its sales are due to hay fever with the rest due to asthma. We believe that the success of Singulair®, despite its limitations in terms of potency, is indicative of the great market driven demand for drugs that are safer than steroids for treating allergic rhinitis. Although the patent for Singulair® is due to expire in August 2012, we do not believe that this will affect adversely the size of the market available to us, primarily because of the increase in the number of people suffering from hay fever each year.

The drugs for treating mild to moderate dermatitis can be divided into two primary groups: topical steroids, which are the most common treatment for dermatitis, and topical calcineurin inhibitors TCI) such as Elidel® and Protopic®.

In the case of Elidel, topical calcineurin inhibitors are the only commonly used category of topical anti-inflammatory drugs aimed specifically at treating the inflammatory aspect of the disease. The two drugs are identical in their mechanism of action and potency. The latter is generally inferior to steroids with the primary indication being children (who tend to respond better and for whom steroidal side effects are heightened). Elidel (Novartis) was launched in the United States in 2002 and Protopic (Astellas) in 2001. Both are prescribed as second-line of treatment if patients are unresponsive to steroids but are prescribed in order to avoid the use of topical steroids for safety issues. In 2005, the FDA assigned both drugs to a “black box” warning stipulating risks of cancerogencity. The sales of both drugs have declined significantly and its patent has expired. The Elidel franchise was sold to Meda in 2011 for $420 million.

According to sales figures for dermatitis drugs for 2009 compiled by EvaluatePharma, a leading market research company, the total volume of the market in seven major markets was estimated to be approximately $1.0 billion for 2009. The combined sales volume of the major steroid brands and Protopic Elidel, most of which are generic, were approximately 82% of total sales. According to forecasts of EvaluatePharma, the market is expected to expand and reach approximately $1.1 billion in 2012.

The following table provides a comparison of properties of different drug groups that are in development or on the market:

Class	Efficacy	Examples	Side Effects
		Group A – steroids	
Steroids	Effective; affect a wide range of inflammatory mediators	Beconase®, Flonase®, Rhinocort®, Dermovate®, Nasonex®, Synalar®, Topicort®	Extensive effects in chronic use including the following specific ones for intranasal sprays (INS) and topical (skin) steroids: ***Nasal sprays:*** Systemic effects: adrenal suppression, hyperglycemia, bone demineralization/fracture, growth delay in children. Local effects: increased intraocular pressure, cataract formation, nasal septal atrophy, fungal infection, nosebleeds, stinging, burning, dryness, smell and taste abnormalities ***Topical (skin) steroids:*** Local: atrophy, skin fragility, striae, purpura (itching), telangiectasia acne, contact dermatitis, rosacea, delayed wound healing, scarring, infections (local) Systemic: cataracts, glaucoma
		Group B – non-steroid synthetic drugs	
COX inhibitors	Low potency; primarily used mainly as mild painkillers	Aspirin, ibuprofen, voltaren, etc. (typically pills)	Gastrointestinal bleeding and ulcers
Specific COX-2 inhibitors	Low potency; primarily used mainly as mild painkillers	Celebrex®, Bextra®, Vioxx®	Gastrointestinal side effects and Cardiovascular effects led to the recall of Vioxx
LOX and Leukotriene inhibitors	Mild efficacy	Singulair®, Zyflo®, Accolate®	Liver toxicity (Zyflo®), Risk of infections(particularly lung infections such as pneumonia and TB), risk of cancer (particularly Lymphoma)

		Non-steroid biological drugs	
Antibodies and recombinant receptors	Varies with patients.	Enbel®, Remicade®, Raptiva®, Humira®, Xolair®	Risks of infections, particularly pulmonary infections such as pneumonia and TB. Risks of certain types of cancers, particularly lymphoma. Rare but potentially very dangerous exacerbated by very long duration of drug activity in body
		Our Product Candidates	
Our Product Candidates	Currently in phase 2 clinical trials; studies indicate excellent safety and promising efficacy	A number of compounds that are candidates for drugs with wide formulation flexibility	To date, no treatment emergent adverse events noted but further investigation is needed

Scientific Background to Inflammation and Our Product Candidates

The phospholipase A2 (PLA2) is a super-family of enzymes responsible for triggering the inflammatory response in the body. This enzyme family includes two sub-families of PLA2 that are of particular interest to anti-inflammatory drug development: the secretory (sPLA2) and the cytosolic (cPLA2) families. The sPLA2 enzyme family consists of at least 13 sub-types (isoforms) and plays a key role in launching inflammation associated with pathogenesis and high levels of sPLA2 have been found in every inflammatory disease studied to date although these enzymes are not necessary to the cell in the absence of inflammation. These enzymes are located outside the cell and are generated and secreted by white blood cells (part of the immune system) but have also been found to be produced by any cell undergoing inflammation. sPLA2hydrolize cell-membrane phospholipids to produce two critical inflammatory pre-cursors in the cell (arachidonic acid and lysophospholipids). These precursors are the substrates for several complex metabolic pathways that give rise to dozens of signaling molecules that generate inflammation (pro-inflammatory mediators). Those derived from arachidonic acid are termed eicosanoids and include prostaglandins and thromboxanes (generated via the COX pathway), as well as the leukotrienes and the expoxins (generated via the LOX pathway). Those derived from lysophospholipids induce activation and extravasation of leukocytes, histamine secretion by mast cells, can induce tissue damage such as gastric ulceration, act as a growth factor (especially lyso-phosphatidic acid). They are also the precursors of PAF, a potent mediator of inflammatory processes. In contrast to the sPLA2 enzymes, the cPLA2 family of enzymes, consisting of at least four isoforms, is located exclusively within the cell and is vital to the functioning of the cell at all times (homeostatic). This family does not play a direct role in triggering or maintaining inflammation associated with pathogenesis and its function seems to be the maintenance of the basal level of inflammatory mediators in the normal cell.

Both COX and LOX have been therapeutic targets for anti-inflammatory drugs for decades. Examples include the COX inhibitors Aspirin and ibuprofen, the COX-2 inhibitors Celebrex and Vioxx and the LOX/leukotriene inhibitors Singulair® and Zyflo. The relatively poor potency of COX and LOX inhibitors is directly related to the fact that they do not affect the activity of the sPLA2 family of enzymes and can therefore not exert an inhibitory effect on the inflammatory process at its inception. Their side effect profile is similarly related to their ability to inhibit only a sub-section of the inflammatory pathway which, in turn, leads to over-stimulation of parallel pathways and the resulting damage.

Professor Saul Yedgar at the Hebrew University has conducted over two decades of research in the field of lipid conjugates and his work has been widely accepted by his peers, as evidenced by the large body of peer-reviewed papers he has had published in leading scientific journals, such as Thorax, American Journal of Physiology and GLIA demonstrating the efficacy (pre-clinical and clinical) of lipid conjugates in multiple models. The key role of PLA2 in inflammatory diseases was elucidated by multiple groups as far back as the early 1980s and is universally accepted in the scientific community according to numerous textbooks on this subject, such as “Progress in Lipid Research,” by Makoto Murakami et al., and “Cardiovascular Drugs Therapy,” by J.E. Burke and E.A. Dennis. Since the mid-1980’s, the key role of PLA2 in inflammation has become increasingly better understood and in the late 1990’s a number of clinical programs were launched using various PLA2 inhibitors to target a number of inflammatory diseases. These programs failed either due to poor clinical efficacy and/or high toxicity. The failure of these programs has been invaluable to our understanding of how to design an effective PLA2 inhibitor drug.

Research and Development

Since our inception in 2005, we have been focused on drug discovery and development programs. Research and development expenses include, but are not limited to, our expenses for personnel associated with our research activities, screening and identification of product candidates, formulation and synthesis activities, manufacturing, preclinical studies, toxicology studies, clinical trials, regulatory and medical affairs activities, quality assurance activities and license fees.

Our research and development expenditures were approximately $831.000 for the six months ended June 30, 2013 and $1,483,000, $841,000 and $247,000 in the years ended December 31, 2012, 2011 and 2010, respectively. Most of such research and development expenditures were in the form of payments to third parties to carry out our formulation and synthesis activities, manufacturing and clinical research activities. Our planned research and development for fiscal 2013 includes personnel expenses, synthesis, formulation, toxicity studies and manufacturing work of MRX-6 and its respective Phase II clinical trials. In January through September 2013, we received investments totaling approximately $14.2 million enabling us to continue the synthesis and formulation of MRX-6 prepare for additional Phase II trials. If we are successful in raising additional capital, we will prioritize and initiate the following additional research and development activities:

- Conduct the formulation, manufacturing and toxicity studies of MRX-6 (in the approximate amount of $2,000,000); and
- Phase II clinical trial of MRX-6 for dermatitis (in the approximate amount of $700,000); and.
- Preclinical testing and formulation of OPT-1 (in the approximate amount of $2,000,000)
- Preclinical testing of CFX-1 (in the approximate amount of $150,000).

Provided that we are able to raise additional capital, we expect our development expenses for fiscal year 2013 to increase and to be primarily focused on the following:

- the continued clinical development of MRX6;
- the synthesis and formulation of MRX-6, and OPT-1;
- if and to the extent the FDA permits us to continue developing our drugs;
- the continued preclinical development of other potential product candidates; and
- using the platform to identify and develop new product candidates.

There is a risk that any drug discovery and development program may not produce revenue. Moreover, because of uncertainties inherent in drug discovery and development, including those factors described in “Risk Factors” of this Form F-1, we may not be able to successfully develop and commercialize any of our product candidates.

Drug development in the United States is a process that includes several steps defined by the FDA. The FDA approval process for a new drug involves completion of preclinical studies and the submission of the results of these studies to the FDA, together with proposed clinical protocols, manufacturing information, analytical data and other information in an Investigational New Drug application which must become effective before human clinical trials may begin. Clinical development typically involves three phases of study: Phase 1, 2 and 3. The most significant costs associated with clinical development are the Phase 3 clinical trials as they tend to be the longest and largest studies conducted during the drug development process. After completion of clinical trials, a New Drug Application, or NDA, may be submitted to the FDA. In responding to a NDA, the FDA may refuse to file the application, or if accepted for filing, the FDA may not grant marketing approval, request additional information or deny the application if it determines that the application does not provide an adequate basis for approval. Even if the FDA grants marketing approval, the FDA may impose restrictions, limitations and/or warnings in the label of an approved product candidate, which may adversely affect the marketability of the product or limit the patients to whom the product is prescribed. In some cases, the FDA may give conditional approval of a NDA for a product candidate on the NDA sponsor’s agreement to conduct additional clinical trials to further assess the product’s safety and effectiveness after NDA approval. Any approval of a NDA by the FDA conditioned on completing additional clinical trials may require the sponsor to discontinue further marketing of the product if data from the clinical trial fails to demonstrate sufficient efficacy and safety in accordance with the agreed-upon protocol for the clinical trial.

The successful development and commercialization of our product candidates is highly uncertain. We cannot reasonably estimate or know the nature, timing and estimated costs of the efforts necessary to complete the development and commercialization of, or the period in which material net cash inflows are expected to commence from, any of our product candidates due to the numerous risks and uncertainties associated with developing and commercializing drugs, including the uncertainty of:

- our ability to progress product candidates into preclinical and clinical trials;
- the scope, rate of progress and cost of our clinical trials and other research and development activities, including additional development activities or studies that may be required by the FDA if we are permitted to continue developing MRX-6, OPT-1, CFX-1 and MRX-5, as well as our ongoing and any future clinical trials of MRX-6 and OPT-1;
- the terms and timing of any potential future collaborative, licensing and other arrangements that we may establish;
- the amount and timing of any licensing fees, milestone payments and royalty payments from potential future collaborators, if any;
- future clinical trials;
- the cost and timing of regulatory filings and/or approvals to commercialize our product candidates and any related restrictions, limitations, and/or warnings in the label of an approved product candidate;
- the cost and timing of establishing medical education, sales, marketing and distribution capabilities;
- the cost of establishing clinical and commercial supplies of our product candidates and any products that we and/or any potential future collaborators may develop;
- the effect of competing technological and market developments; and the cost of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights, and the cost of defending any other litigation claims;
- the costs of synthesis and formulation; and
- lack of adequate funding to continue the synthesis, formulation, manufacture and/or clinical trials.

Any failure to complete the development of our product candidates in a timely manner could have a material adverse effect on our operations, financial position and liquidity.

Market opportunity in inflammatory diseases

The term “inflammatory diseases” applies to a super-family of diseases and conditions comprising the largest such group with hundreds of distinct diseases. These include autoimmune diseases, allergies, reactions to infections and tissue breakdown, hereditary diseases as well as diseases of unknown etiology. Increasingly, many cancerous processes such as angiogenesis are also being linked to inflammation. Names of inflammatory diseases typically have the suffix “- itis “(e.g. bronchitis, appendicitis, dermatitis) but many other do not (e.g. asthma, psoriasis, lupus, etc.). According to a published report by GBI Research, the global drug market for inflammatory diseases was approximately $57 billion in 2009.

MRX-4 and the market for hay fever

MRX-4 is intended to treat patients who suffer from allergic rhinitis (hay fever). Allergic rhinitis is the most common of the chronic respiratory illnesses, affecting both quality of life and health of patients. Based on an article in Nature Reviews Drug Discovery from April 2009, in the seven major markets that comprise North America, Europe and Japan, the total number of patients was over 150 million in 2009 with 62 million in the United States alone making it the second most prevalent disease after hypertension. There is also a strong correlation (co-morbidity) between allergic rhinitis and asthma, making allergic rhinitis a significant risk factor for asthma.

Allergic rhinitis is a disease characterized by symptoms like sneezing, watery nasal discharge, nasal obstruction and itching, associated with inflammation. The most likely cause of allergic rhinitis is under-development of the immune system in childhood, since the most significant risk factors include a personal and family history of asthma and other allergies, such as eczema and hives. Heredity is a major factor in atopy which predisposes an individual to allergic disease.

We consider MRX-4 to be a potential first in class product that would be a direct competitor of the two anti-inflammatory drug types currently existing in the market that are used for disease maintenance: steroids and Singulair®.

Intra-nasal Steroids

Intra-nasal steroids are the most common anti-inflammatory drugs used in allergic rhinitis and have been in use for decades. Examples of such drugs in the US market include: Beconase®, Rhinocort®, Nasonex®, Omnaris® and Veramyst. Intra-nasal steroids are potent and are delivered topically in the form of a nasal spray. However, even in their topical form, these steroids are associated with numerous side effects including: nasal bleeding, dysgeusia (changes in sense of smell and taste) and local infection due to immunosuppression.

Singulair (montelukast)

Merck's Singulair is the only commonly used non-steroidal anti-inflammatory drug for treating the inflammation aspects of hay fever and asthma. The drug acts by blocking the action of cysteinyl leukotriene (CysLT1) pro-inflammatory mediators that are generated by the LOX pathway, downstream of the activity of sPLA2. The drug can only be taken as a pill, not topically. Singulair® was launched in 1998 for the treatment of asthma. In 2003, the FDA approved Singulair for use in allergic rhinitis. While it has a modest potency compared to steroids and can only be formulated as a pill (and not as either an inhaler or nasal spray), it is not associated with severe side effects (unlike steroids) thus making this drug a commercial success. In 2010, Singulair® global sales were $5 billion of which $3.4 billion (70%) were in the United States alone. Approximately 25% of its sales are due to hay fever with the rest due to asthma. We believe that the success of Singulair®, despite its limitations in terms of potency and formulation, is indicative of the great demand for drugs that are safer than steroids for treating allergic rhinitis. Although the patent for Singulair® is due to expire in 2012, we do not believe that this will affect adversely the size of the market available to us, primarily because of the increase in the number of people suffering from hay fever each year and Singulair's inability to provide a potent alternative to steroids.

Based on an article in Nature Reviews Drug Discovery from April 2009, in 2009, sales of drugs for treating hay fever in the seven major markets were approximately $10.35 billion for both over-the-counter and prescription drugs, approximately $4.0 billion and $750.0 million of which were from the sale of nasal aerosol steroids and Singulair®, respectively. Datamonitor forecasts that the sales for this market will reach approximately $11.3 billion in 2016.

Most of the patients with allergic rhinitis achieve symptomatic relief with the drugs that are currently available in the market (primarily nasal steroids). However, we believe that there is an unmet need for drugs that will be safer than steroids and more potent than the current non-steroidal drugs.

MRX-6 and the market for dermatitis (eczema)

MRX-6 is a topical cream aimed at treating eczema (with the first indication being contact dermatitis). There is a wide variety of medical conditions that fall under the broad definition of dermatitis/eczema, including contact dermatitis, atopic dermatitis and seborrhea dermatitis. The first is an allergy, the second is of unknown etiology but probably autoimmune in nature and the last is an abnormal reaction to normal skin flora. All forms of eczema may cause discomfort, pain and embarrassment to the person affected. The incidence of atopic dermatitis, for example, has increased significantly over the past 30 years in the industrialized world, probably due to environmental factors.

The drugs for treating mild to moderate dermatitis can be divided into two primary groups: topical steroids, which are the most common treatment for dermatitis, and topical calcineurin inhibitors TCI) such as Elidel® and Protopic®.

Topical Steroids

Topical steroids have dominated the market for decades and are commonly used. Dozens of varieties are available from low-strength over-the-counter versions to potent prescription drugs. Examples of such prescription drugs in the US market include Synalar, Kenalog, Elocon, Ultravate, Temovate, Halog and Topicort.

They are associated with side effects (both local and systemic) including:

- Local: atrophy, skin fragility, striae, purpura (itching), telangiectasia acne, contact dermatitis, rosacea, delayed wound healing, scarring, infections (local).
- Systemic: cataracts, glaucoma.

Topical Calcineurin Inhibitors

Topical calcineurin inhibitors are the only commonly used category of topical anti-inflammatory drugs aimed specifically at treating the inflammatory aspect of the disease. The two drugs are identical in their mechanism of action and potency. The latter is generally inferior to steroids with the primary indication being children (who tend to respond better and for whom steroidal side effects are heightened). Elidel (Novatris) was launched in the United States in 2002 and Protopic (Astellas) in 2001. Both are prescribed as second-line of treatment if patients are unresponsive to steroids but, in reality, would be frequently prescribed to avoid the use of topical steroids for safety issues. At the height of sales (2005), these drugs had combined global sales of $550 million. In 2005, the FDA assigned both drugs to a “black box” warning stipulating risks of cancerogencity. The sales of both drugs have declined significantly and its patent has expired. Its franchise was sold to Meda Pharmaceuticals Inc. in 2011 for $420 million.

According to sales figures for dermatitis drugs for 2009 compiled by EvaluatePharma, a leading market research company, the total volume of the market in seven major markets was estimated to be approximately $1.0 billion for 2009. The combined sales volume of the major steroid brands and Protopic ® /Elidel most of which are generic, were approximately 82% of total sales. According to forecasts of EvaluatePharma, the market is expected to expand and reach approximately $1.1 billion in 2012.

Development of our Clinical Pipeline for our Product Candidates

We are currently clinically developing two product candidates for the treatment of allergic rhinitis and dermatitis, respectively. In addition, we are in the pre-clinical stages of developing three product candidates for: ophthalmology (conjunctivitis and dry eye), cystic fibrosis and inflammatory bowel disease (IBD).

Clinical advancement of our lead product candidates

We are currently conducting Phase 2b clinical trial for MRX-6, a topical cream for dermatitis in Israel. We anticipate completing our Phase 2 clinical trials by mid-2014 and submitting an application for the FDA’s Investigational New Drug, or IND, in 2014. If this application is approved, we intend to seek licensing arrangements with international pharmaceutical companies.

MRX-4

Phase 1 clinical trial. We conducted Phase 1 clinical trials on MRX-4 in Israel. The clinical trial in Israel was approved by the Israeli Ministry of Health and was conducted at Ichilov Hospital at the Tel Aviv Medical Center on 16 subjects. The primary and only objective of the trial was safety, and it was based on a double blind study with a placebo control group, and patients were treated once a day. A double blind clinical trial is a trial in which two alternative treatments are given to two groups of patients: one is treated with a drug and the other a negative control group, which receives placebo treatment. In this trial, both the investigators and the subjects were unaware of which subjects belonged to the control group and which to the trial group. Only after concluding the trial and analyzing the results does the affiliation to these groups become clear. This way, the effect of prejudices and biases, the placebo effect and physical effects (including subconscious ones) are reduced. Randomization into the control and trial groups is vital, and the key assigning each participant in the trial to one of the groups is kept by a third party until the conclusion of the trial.

The trial showed that MRX-4 was well tolerated and no drug-related adverse effects were noted. A second Phase 1 trial was combined with a Phase 2 trial that was conducted in South Africa at the UCT Lung Research Institute, the results of which are discussed below.

Phase 2a clinical trials. MRX-4 completed a Phase 1/2a clinical trial in South Africa in 2008. The study, including all of its stages, has been conducted according to the requirements of the International Conference on Harmonisation of Technical Requirements for Registration of Pharmaceuticals for Human Use, or ICH, and Good Clinical Protocol, or GCP, by third parties. As of October 15, 2013, we have invested approximately $2,289,000 for this part of the Phase 2 clinical trial.

Beginning in 1990, the FDA and corresponding regulatory agencies of the EU and Japan commenced discussions to develop harmonized standards for preclinical and clinical studies and the format and content of applications for new drug approvals through a process known as the International Conference on Harmonisation of Technical Requirements for Registration of Pharmaceuticals for Human Use (ICH). Data from multinational studies adhering to GCP are now generally acceptable to the FDA and regulators in Australia, Canada, the EU, Japan and Latin American countries and the World Health Organization, or the WHO. GCP is a standard for the design, conduct, performance, monitoring, auditing, recording, analysis, and reporting of clinical trials in a way that provides assurance that the data are credible and accurate and that the rights, safety, and well-being of trial subjects are protected . Compliance with this standard provides public assurance that the rights, safety and well-being of trial subjects are protected, consistent with the principles that have their origin in the Declaration of Helsinki, and that the clinical trial data are credible. GCP includes review and approval (or provision of a favorable opinion) by an independent ethics committee, or IEC, before initiating a study, continuing review of an ongoing study by an IEC, and obtaining and documenting the freely given informed consent of the subject (or a subject's legally authorized representative, if the subject is unable to provide informed consent) before initiating a study. The FDA enforces these GCP guidelines through periodic onsite inspections of trial sponsors, principal investigators, CRO trial sites, laboratories, and any entity having to do with the completion of the study protocol and processing of data.

As ICH GCP is the international standard that is compatible with both the FDA and EMA, we believe that our Phase 2 trial for MRX-4 was conducted in accordance with rules that are FDA-compliant. The MRX-4 clinical trial was a non-IND foreign study performed in accordance with ICH GCP standards, including review and approval by an independent ethics committee and the obtaining of the informed consent from its subjects in compliance with the requirements in the FDA's regulations. Moreover, the FDA is able to validate the data from the study through onsite inspection of the clinical site, if necessary.

The hay fever drug development project was coordinated by Scilucent Inc. (based in Virginia), a clinical research organization, or CRO, that specializes in promoting the development of products, obtaining regulatory approvals and managing projects for pharmaceutical companies. The trial was conducted in South Africa and included 105 allergic rhinitis patients who were treated for six days (morning and evening). The primary objectives of the study were to examine safety and tolerability of the drug, with the secondary objectives of examining the clinical and biochemical efficacy of MRX-4 in treating the illness. The study was conducted in accordance with ICH standards. The principal investigators were Profs. Eric Bateman and Paul Potter, both of whom have a global reputation in allergic rhinitis and asthma. The results of the study were reported to the international scientific community by Prof. Bateman at the annual conference of the European Academy of Allergy and Clinical Immunology that was held in London in June 2010.

The study consisted of two parts: the first compared MRX-4 to a placebo and examined the safety, tolerability and efficacy of the drug. The other was a positive control group that compared Rhinocort® (a widely used intranasal steroid spray for the treatment of rhinitis and that has been marketed for about a decade) – to a placebo group. The primary objective was met and there were no side effects related to the use of MRX-4 (no treatment emergent adverse events).The patients in the MRX-4 group demonstrated the same safety profile as patients in the placebo group. In addition to this, the positive control group (Rhinocort®) demonstrated signs of significant, and common, steroid treatment related effects (nasal bleeding, headaches and local infections), illustrating the need for a safe alternative to steroid treatment. The safety checks included a pharmacokinetic analysis, which examines whether the drug that is administered as a nasal spray penetrates the blood system. The results of this test showed that there are no remnants of MRX-4 in the bloodstream, making it much safer than steroid-based drugs and Singulair®, both of which penetrate the bloodstream and thereby potentially affect other parts of the body. In addition, the group treated with MRX-4 demonstrated reductions in coughing, headaches and the need for bronchodilator rescue medication during the six days of treatment. This is potentially an important indication for the potency of the drug.

The secondary objectives of the trial were also achieved: a significant improvement was found to have occurred in the overall index of clinical symptoms (known as total symptom scores), which is based on four separate symptoms and is the standard method for examining the efficacy of allergic rhinitis drugs. The drug was particularly effective in significantly improving headaches ($p=0.015$) and in improving nasal congestion (a "**blocked nose**") ($p=0.052$) (the p-value is the probability that the reported result was achieved purely by chance (e.g., a p-value £ 0.01 means that there is a 1% chance that the difference between the placebo group and the treatment group is purely due to chance). A p-value of 0.05 is a commonly used criterion for statistical significance). The need for bronchodilator rescue medication was also reduced pointing to the potential potency of MRX-4. Another secondary objective, which was met, was a significant decrease in biochemical mediators that constitute indications of an allergic reaction, and sometimes serve as an indication ($p<0.05$) that is predictive of clinical efficacy. The indicators included, among others, changes in the white blood cell count and measurement of inflammatory mediators. Most of those mediators were suppressed by MRX-4 similarly to Rhinocort®.

No treatment emergent side effects were observed for any of the trials performed. All side effects recorded shared the same prevalence as the placebo group and do not therefore result from treatment with the specific drug. We do not anticipate further clinical trials with MRX-4 for allergic rhinitis at this time.

MRX-6

Pre-clinical and Phase 1 clinical trials . From 2005 to 2007, we conducted pre-clinical development of the drug, which included trials in animal models. In 2007, we conducted an initial, exploratory size study (a first in-patient study) on 11 patients who suffered from contact dermatitis with the primary objective of determining initial efficacy in treating humans. The study was conducted under the supervision of Prof. Arieh Ingber, head of the Dermatology Department at Hadassah Ein-Kerem Hospital. The patients were treated for 28 days with MRX-6 (morning and evening) and double-blinded with placebo. The results showed significant clinical efficacy compared to the placebo group (69% improvement compared to 32% in the placebo group ($p=0.0024$)), with efficacy being comparable to the common efficacy of steroid ointments. The efficacy is based on the standard medical index for assessing improvement in disease. Further, no drug-related adverse effects were identified. The results of this study were published in March 2007 in the International Journal of Inflammatory and Immunopathology. From 2007 to early 2010, we further developed the chemical synthesis and formulation of MRX-6.

Phase 2 clinical trials

We received approval to conduct a Phase 2 clinical trial of MRX-6. We have completed first-in-patient clinical studies (Phase 2a) of the MRX-6, a topical cream for treating contact dermatitis (a common type of eczema). The Phase 2a clinical trial for MRX-6 is being conducted as an academic study and, thus, is neither ICH- or FDA-compliant. We are already underway in the Phase 2b clinical study for MRX-6 which is also an academic study. The MRX-6 study is currently underway in Israel. This trial is being conducted on 80 patients at Hadassah Ein-Karem Hospital in Israel. Patients are treated for 21 days (morning and evening) with the same tests as we conducted in the previous study. The dermatitis drug development project is being coordinated by Target Health Inc., a New York based CRO. Although MRX-6 was approved by the local Institutional Review Board and the Israeli Ministry of Health, this clinical trial was conducted as an academic study, and not an ICH-compliant trial. The primary difference between academic studies and the ICH rules is that the academic studies do not require usage of independent monitors, which ICH studies do. While the FDA will not approve a drug based on academic studies, companies do routinely submit results of academic studies as supportive evidence. The FDA does consider such results as definitive, and the Company will be required to conduct an ICH-compliant clinical trial..

On May 8, 2013, we announced positive interim results from the first cohort (2% MRX-6 vs. vehicle) of a multi-center Phase II double blind, two step dose-ranging, vehicle and active control study of MRX-6 for the treatment of patients with allergic contact dermatitis (ACD).

Data released were for treatment with the highest (2.0%) dose of MRX-6 and vehicle control. The results show a 56% improvement in symptoms (dryness, scaling, redness, pruritus and fissures) from baseline in the MRX-6 treated hand/forearm, compared to a 24% improvement for vehicle ('placebo') treated hand/forearm ($p < 0.0001$). Each patient acted as his or her own control. Clinically significant benefit, defined as a $\geq 50\%$ reduction in symptoms from baseline in the MRX-6 treated hand/forearm was seen in 67% of patients. MRX-6 was found to be safe and well-tolerated, with no adverse events. The benefit was similar regardless of patient baseline score, study center or symptom sub-score.

Table 1. Percent Change from Baseline to Day 21 – Comparison between treatment groups using Paired T-test/Wilcoxon Rank Sum Test – ITT population (N=30)

Endpoint		**MRX6**	**Vehicle**	**P-Value**
Total Physicians Visual Assessment	Mean %Change from Baseline	-56%	-24%	<0.0001
Scaling*	Mean %Change from Baseline	-45%	-22%	0.0130
Redness*	Mean %Change from Baseline	-47%	-20%	0.0006
Pruritis*	Mean %Change from Baseline	-63%	-28%	0.0059
Fissures*	Mean %Change from Baseline	-79%	-44%	0.0045
Dryness*	Mean %Change from Baseline	-46%	-15%	0.0008

* Data are not normally distributed – P-Values result from Wilcoxon Rank Sum test

MRX-6 is formulated as a topical (local) treatment cream. Subject to the results of the trials, we intend to submit an IND application to the FDA for this drug by mid-2013 so that we may conduct clinical trials in the United States. As of October 15, 2013, we have invested approximately $720,000 for this part of the Phase 2 clinical trial and expect to invest approximately $4 million overall for the research and development of MRX-6.

Advancement of our additional research and development programs

We have also initiated a number of preclinical studies for the development of drugs for inflammatory eye diseases (OPT-1), inflammatory bowel disease (MRX-5), and cystic fibrosis (CFX-1). We intend to conduct such studies throughout 2013 and 2014; OPT-1 pre-clinical studies planned to take place during 2013 include synthesizing and formulating the drug, conducting safety studies and animal model optimization screening. Potential MRX-5 pre-clinical studies are intended to take place beginning of the first quarter of 2014, in which we intend to synthesize and formulate the drug, conduct safety studies and animal model optimization screening.

No treatment emergent side effects were observed for any of the trials performed. All side effects recorded shared the same prevalence as the placebo group and do not therefore result from treatment with the specific drug.

Intellectual Property

We will be able to protect our technology from unauthorized use by third parties only to the extent it is covered by valid and enforceable patents or is effectively maintained as trade secrets. Patents and other proprietary rights are an essential element of our business.

Our success will depend in part on our ability to obtain and maintain proprietary protection for our product candidates, technology, and know-how, to operate without infringing on 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 trade secrets, know-how, continuing technological innovation, and in-licensing opportunities to develop and maintain our proprietary position.

We have an exclusive license from Yissum for patents and patent applications that cover our product candidates MRX-4, MRX-5, MRX-6, OPT-1 and CFX-1 in the United States, Canada, Australia, Japan, before the European Patent Office designating Germany, Great Britain, Spain, France, Italy, and other European Union Countries, as well in certain other countries outside those regions. We have also exclusively licensed from Yissum patents and pending patent applications in the United States, Canada, Australia, Japan, before the European Patent Office designating Germany, Great Britain, Spain, France, Italy, and other European Union Countries, as well in certain other countries outside those regions for the use of our product candidate MRX-4, MRX-5, MRX-6, OPT-1 and CFX-1 for treating patients having allergic rhinitis (MRX-4), contact dermatitis (MRX-6), conjunctivitis and dry eye (OPT-1), inflammatory bowel disease (MRX-5), and/or cystic fibrosis (CFX-1).

We own or have exclusive rights to 14 United States and 12 foreign issued patents; and 14 United States and 42 foreign patent applications, as well as 2 pending international patent applications. Issued patents which cover our product candidates MRX-4, MRX-5, MRX-6, OPT-1 and CFX-1 in the United States, will expire between 2021 and 2022, depending on the specific product candidates. Issued patents directed to our product candidates MRX-4, MRX-5, MRX-6, OPT-1 and CFX-1 outside of the United States, will expire between 2021 and 2025, depending on the specific compositions. We have pending patent applications for formulations of our product candidates MRX-4, MRX-5, MRX-6, OPT-1 and CFX-1 that, if issued, would expire in the United States and in countries outside of the United States between 2021 and 2032, depending on the specific compositions and formulations. We have an issued patent directed to methods of manufacturing which covers our product candidates compounds in the United States and which will expire in 2021. Issued patents directed to methods of treatment using our product candidates MRX-4, MRX-5, MRX-6 and OPT-1 in the United States, will expire between 2021 and 2024, depending on the specific indication: allergic rhinitis (MRX-4), contact dermatitis (MRX-6), conjunctivitis (OPT-1) and inflammatory bowel disease (MRX-5). Issued patents directed to use of our product candidate: allergic rhinitis (MRX-4), contact dermatitis (MRX-6), and inflammatory bowel disease (MRX-5).and CFX-1for indications outside of the United States, will expire between 2021 and 2026, depending on the specific indication: allergic rhinitis (MRX-4), contact dermatitis (MRX-6), inflammatory bowel disease (MRX-5), and cystic fibrosis (CFX-1). We have pending patent applications for use of our product candidates MRX-4, MRX-5, MRX-6, OPT-1 and CFX-1 that, if issued : allergic rhinitis (MRX-4), contact dermatitis (MRX-6), conjunctivitis and dry eye (OPT-1), inflammatory bowel disease (MRX-5) and cystic fibrosis (CFX-1) would expire in the United States and in countries outside of the United States between 2021 and 2032, depending on the specific indications and formulations: allergic rhinitis (MRX-4), contact dermatitis (MRX-6), conjunctivitis and dry eye (OPT-1), inflammatory bowel disease (MRX-5) and cystic fibrosis (CFX-1).

Any patent applications which we have filed or will file or to which we have licensed or will license rights may not issue, and patents that do issue may not contain commercially valuable claims. In addition, any patents issued to us or our licensors may not afford meaningful protection for our products or technology, or may be subsequently circumvented, invalidated or narrowed, or found unenforceable. Our processes and potential products may also conflict with patents which have been or may be granted to competitors, academic institutions or others. As the pharmaceutical industry expands and more patents are issued, the risk increases that our processes and potential products may give rise to interferences filed by others in the U.S. Patent and Trademark Office, or to claims of patent infringement by other companies, institutions or individuals. These entities or persons could bring legal actions against us claiming damages and seeking to enjoin clinical testing, manufacturing and marketing of the related product or process. In recent years, several companies have been extremely aggressive in challenging patents covering pharmaceutical products, and the challenges have often been successful. If any of these actions are successful, in addition to any potential liability for damages, we could be required to cease the infringing activity or obtain a license in order to continue to manufacture or market the relevant product or process. We may not prevail in any such action and any license required under any such patent may not be made available on acceptable terms, if at all. Our failure to successfully defend a patent challenge or to obtain a license to any technology that we may require to commercialize our technologies or potential products could have a materially adverse effect on our business.

In addition, changes in either patent laws or in interpretations of patent laws in the United States and other countries may materially diminish the value of our intellectual property or narrow the scope of our patent protection.

We also rely upon unpatented proprietary technology, and in the future may determine in some cases that our interests would be better served by reliance on trade secrets or confidentiality agreements rather than patents or licenses. We may not be able to protect our rights to such unpatented proprietary technology and others may independently develop substantially equivalent technologies. If we are unable to obtain strong proprietary rights to our processes or products after obtaining regulatory clearance, competitors may be able to market competing processes and products.

Others may obtain patents having claims which cover aspects of our products or processes which are necessary for, or useful to, the development, use or manufacture of our services or products. Should any other group obtain patent protection with respect to our discoveries, our commercialization of potential therapeutic products and methods could be limited or prohibited.

Material Licenses

License Agreement with Yissum

Our research and development programs are based on technology that was licensed from Yissum, Research & Development Company of the Hebrew University of Jerusalem, or Yissum, where our controlling shareholder, Prof. Yedgar, is conducting studies focused on inflammation. Prof. Yedgar is a Professor Emeritus and a research lab chief, and has no management position, voting power or other significant influence with respect to the Hebrew University or Yissum. Our breach of this license or failure to obtain a license to technology required to develop, test and commercialize our products may seriously harm our business.

Prof. Yedgar performed these studies during his employment as a retired Prof. at the Department of Biochemistry of the Hebrew University of Jerusalem. Thus, except for Prof. Yedgar having the right to receive any distribution of dividends or other distributions under the terms of Prof. Yedgar's employment agreement, Prof. Yedgar and his heirs have the right to receive 60% of the net income that would be distributed by the Company to Yissum.

On November 27, 2002, Morria USA entered into an exclusive license agreement, which we refer to as the License Agreement, with Yissum Research and Development Company of the Hebrew University in Jerusalem, or Yissum. Pursuant to the License Agreement, Morria USA was granted an exclusive, worldwide license, including a right to sublicense (subject to the prior written consent of Yissum), to make, have made, use, market, sell, have sold, offer to sell, import, license and distribute the technology owned by Yissum for the use of lipid conjugates for the treatment of disease. Unless earlier terminated, the term of the License Agreement is the later of 20 years from the date of the License Agreement and the term of the patents or patent applications. On February 1, 2005, the License Agreement was sublicensed from Morria USA to us pursuant to an exclusive sublicense agreement which will terminate upon the termination of the License Agreement.

Under the terms of the License Agreement, we will pay to Yissum royalties on a quarterly basis, as follows: a percentage (4%) of the net sales, or if we receive sublicensing revenue from third parties, we will pay a royalty of 18% of the sublicensing revenue received. "Net sales" is defined under the License Agreement as the amount billed by us, our affiliates or distributors to third parties (other than sublicensees) for sales of licensed products, less (i) customary discounts, (ii) sales, tariff duties, use taxes including VAT and (iii) outbound transportation costs, credits, returns, export licenses, import duties, value added tax and prepaid freight. "Sublicensing revenue" is defined as all cash, fees and royalties paid to us by the sublicensee in consideration for the granting of rights to the patents and/or use the licensed technology, excluding any reimbursements for expenses directly attributable to the conduct of clinical development and/or trials by us.

We have undertaken, at our own expense, to use our commercially reasonable best efforts to develop the licensed products under the License Agreement and to be responsible for the preparation, filing prosecution and maintenance of all the patents. The intellectual property rights of the licensed technology are, and will remain, owned by Yissum. We assume full responsibility and conduct of patent prosecution and maintenance of the intellectual property. Any application for registration of a patent will be registered exclusively to the title of Yissum, is subject to the approval of Yissum and will be made at our full expense. We have undertaken, at our own expense, to provide full protection against third party's infringement of the intellectual property.

We have undertaken to indemnify Yissum or any person acting on our behalf, against any liability, including product liability, damage, loss or expense derived from the use, development, manufacture, marketing, sale or sublicensing of the license product and technology.

If we default or fail to perform any of the terms, covenants, provisions or our obligations under the License Agreement, Yissum has the option to terminate the License Agreement, subject to advance notice to cure such default.

Pursuant to the April 2012 Financing transaction, on March 29, 2012, Yissum acknowledged that we are not in breach of the License Agreement and have not been in breach of the License Agreement at any time from the effective date of the License Agreement. Yissum acknowledged and gave consent to the loan and the lien relating to the transaction. In connection with the loan, the lien and any action by the note holders to enforce the lien, Yissum agreed to not take any actions to cause the cessation of our license in the licensed technology. If the Sublicense Agreement ceases to be effective, Yissum acknowledged and agreed that Morria USA may sublicense the licensed technology to any third party selected by Morria USA. Following an event of default and any action by any of the note holders to enforce the lien, Yissum acknowledged and agreed that Morria USA may assign the License Agreement to the note holder or its affiliate and such assignee may sublicense the licensed technology to any third party selected by the assignee. In such events of (i) sublicense of the licensed technology to any third party or (ii) assignment of the License Agreement to a note holder or its affiliate or (iii) the assignee's sublicense of the licensed technology to any third party, Yissum agreed to not take any actions to cause the cessation of Morria USA's (or, as the case may be, its assignee's) license in the licensed technology.

Manufacturing, Marketing and Sales of our Drugs

Synthetic drugs, such as those developed by us, are based on a chemical manufacturing process that requires raw materials, such as various solvents, sugars, fats and polymers. There are many suppliers of raw materials for these products and, in recent years, no material changes have occurred in the prices of the raw materials that are required for the research, development and manufacturing of the drugs we are developing.

We currently have no in-house manufacturing or development capabilities, and have no current plans to establish laboratories or manufacturing facilities for significant clinical production. We currently have our products manufactured by Scynexis, Inc. Our Agreement with them is subject to industry-standard terms and conditions, and is performed on an as-needed basis.

We have no direct experience in manufacturing any of our product candidates, and we currently lack the resources or capability to manufacture any of our product candidates on a clinical or commercial scale. As a result, we will be dependent on third parties for the manufacturing of clinical scale quantities of all of our product candidates. We believe that this strategy will enable us to direct operational and financial resources to the development of our product candidates rather than diverting resources to establishing a manufacturing infrastructure.

Because we are focused on discovery and development of drugs, we do not have any marketing or distribution capabilities, nor are we at a stage where we would have any customers.

Competition

The development and commercialization of new drugs is highly competitive. We will face competition with respect to all product candidates we may develop or commercialize in the future from pharmaceutical and biotechnology companies worldwide. The key factors affecting the success of any approved product will be its efficacy, safety profile, drug interactions, method of administration, pricing, reimbursement and level of promotional activity relative to those of competing drugs. If approved, we would expect our clinical-stage product candidates, MRX-4 and MRX-6, to compete with approved drugs and potentially with product candidates currently under development, including the following:

- *MRX-4.* If approved, we would expect MRX-4 to compete in the hay fever drug market with nasal sprays that contain steroids (Flixonase®, Beconase®, Nasacort®, Rhinocort®) and the drug Singulair®, which is a non-steroidal, anti-inflammatory pill. The leading companies in the field include Merck (the manufacturer of Singulair®), GlaxoSmithKline (the manufacturer of Flixonase® and Beconase®), Sanofi (the manufacturer of Nasacort) and AstraZeneca (the manufacturer of Rhinocort). According to Datamonitor, the total market, as of its 2011 report, is approximately $7 billion, and is mostly dominated by nasal sprays.

- *MRX-6.* If approved, we would expect MRX-6 to compete in the dermatitis drug market is with skin ointments that contain steroids (Hydrocortisone®, Fluticasone®, Betamethasone®) and the drugs Elidel® and Protopic®, which are non-steroidal anti-inflammatory ointments. The leading companies in the market include Galderma, Medicis and Novartis (the manufacturer of Elidel®). According to Datamonitor, the total volume of the market, as of its 2011 report, is approximately $2.4 billion, and is dominated mostly by steroidal ointments.

Many of our potential competitors have substantially greater financial, technical, and personnel resources than us. In addition, many of these competitors have significantly greater commercial infrastructures. Our ability to compete successfully will depend largely on our ability to leverage our collective experience in drug discovery, development and commercialization to:

- discover and develop medicines that are differentiated from other products in the market;

- obtain patent and/or proprietary protection for our medicines and technologies;

- obtain required regulatory approvals;

- obtain a commercial partner;

- commercialize our drugs, if approved; and

- attract and retain high-quality research, development and commercial personnel.

We believe that Anthera Pharmaceuticals, Inc. and Ziarco Pharma, Ltd., are the only other companies that were or are recently focused on the phospholipase A2 pathway like Celsus. Anthera is a biopharmaceutical company focused on developing and commercializing products to treat serious diseases, including cardiovascular and autoimmune diseases. It has in-licensed a portfolio of clinical and pre-clinical inhibitors of PLA2 and is developing an in-licensed drug from Eli Lilly and Shinogi & Co., which they developed as part of their collaboration. Anthera's drug candidates are entirely different in both structure (chemical class) and function to Celsus's product candidates. Ziarco Pharma, Ltd. is pursuing development of cytosolic PLA2 inhibitors, a different segment of the PLA2 pathway, and Ziarco's drug candidates are entirely different in both structure (chemical class) and function to Celsus's product candidates. Other companies, such as Anacor Pharmaceuticals, are pursuing other pathways and mechanisms to treat dermatitis.

Organizational Structure

Celsus Therapeutics PLC is organized under the laws of England and Wales and has two wholly-owned subsidiaries: Morria Biopharmaceuticals Inc., a company incorporated under the laws of the State of Delaware, or Morria USA, and Morria Biopharma Ltd., a company formed under the laws of Israel, or Morria Israel. Neither of these subsidiaries currently conduct any material business.

Property, Plant and Equipment

We do not own any property or fixed assets in our London office. We lease office space and receive office services in London from a third party, which includes mail management and transfer, fax and telephone services and secretarial services for £345 (or approximately $551, based on an exchange rate as of October 15, 2013) (excluding VAT) per month. Each party may terminate this arrangement by giving three months' advance notice.

Legal Proceedings

We are not involved in any material legal proceedings.

Employees

As of December 31, 2012, we had two full-time employees. As of December 31, 2011 and 2010, we had one full-time employee. As of December 31, 2012, one employee was engaged in research and development and management and one employee was engaged in administration and finance. As of October 23, 2013, we had four full-time employees and two employees were engaged in research and development; and two were engaged in management, administration and finance.

None of our employees are members of labor unions.

GOVERNMENT REGULATION

To date, we have conducted our preclinical and clinical trials in Israel and South Africa. We do not have the ability to independently conduct clinical trials for our product candidates, and we rely on third parties, such as contract research organizations, medical institutions, and clinical investigators, to perform this function. Our reliance on these third parties for clinical development activities reduces our control over these activities. Although we have, in the ordinary course of business, entered into agreements with these 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 FDA 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.

We plan to seek approvals in the European Union from the European Medicines Authority, or EMA, and in the United States from the Food and Drug Administration, or FDA. Therefore, we currently are and may be in the future subject to a variety of regional regulations governing clinical trials and commercial sales and distribution of our products, if any. The approval process varies from country to country and the time may be longer or shorter than that required for FDA approval. The requirements governing the conduct of clinical trials, product licensing, pricing and reimbursement vary greatly from country to country.

We currently have all necessary approvals for the preclinical trials we conduct on animals in Israel. In order to conduct preclinical trials on animals in Israel, companies must obtain the approval of the Ministry of Health and the Council for Trials on Animals at the Ministry of Health, which operates pursuant to the Prevention of Cruelty to Animals Law (Experiments on Animals) 5754 – 1994. The approvals of the following committees are given on applications as they are submitted:

Institutional Review Board (IRB) , also known as an Independent Ethics Committee (IEC) or Ethical Review Board (ERB), is a committee that has been formally designated to approve, monitor, and review biomedical and behavioral research involving humans.

Helsinki (ethics) Committee – An Israeli Committee that acts according to the Public Health Regulations (Clinical Trials on Human Subjects) 1980, including all subsequent additions and amendments thereto until 1999 and applies the principles stated in the Helsinki and ICH-GCP Guidelines. The Committee deliberates on proposals for clinical trials on human subjects. It also deliberates on research proposals in the sphere of the social sciences. The Committee operates under the auspices of the Ministry of Health and the State Comptroller. The Committee is comprised of at least five (five to 11) members who have attained senior status in their professions and in academia.

Clinical trials in Israel and South Africa must undergo inspection by and receive prior approval from an ethics committee at the institute at which the trial is to be conducted as well as from the Israeli Ministry of Health and the South African Medicines Control Council. In accordance with the Declaration of Helsinki, legislation developed by the World Medical Association as a statement of ethical principles for medical research involving human subjects, including research on identifiable human material and data, the supervisory committee of the clinical trials at the institute at which the trial is conducted, or the Helsinki committees, and the relevant healthcare regulatory authority consider, when examining the application, among other things, the ethical foundations related to the trial, the safety of the product to the user and the exposure to tort claims of the institute conducting the trial. Results of preclinical trials, along with the details on the manner of manufacturing products and their analytic properties (i.e., composition, stability of the drug over time, etc.), are also examined as part of the approval process for conducting clinical trials on humans. We have received the approval of the Helsinki committees at Hadassah Ein-Kerem, Ichilov and the Lung Research Institute in South Africa, where have conducted our Phase 1 and 2 trials, as well as the Israeli Ministry of Health and the South African Medicines Control Council.

On May 5, 2008, the Department of Health of The Republic of South Africa approved the clinical trial application of MRX-4.

On July 14, 2009 the Hadassa Hospital, Jerusalem, notified us that the Helsinki Committee approved the clinical trial application of MRX-6 on January 2, 2009.

United States

The FDA and comparable regulatory agencies in state and local jurisdictions and in foreign countries impose substantial requirements upon the clinical development, manufacture, marketing and distribution of drugs. These agencies and other federal, state and local entities regulate research and development activities and the testing, manufacture, quality control, safety, effectiveness, labeling, storage, record keeping, approval, advertising and promotion of our product candidates and commercialized drugs.

In the United States, the FDA regulates drugs under the Federal Food, Drug and Cosmetic Act and implementing regulations. The process required by the FDA before our product candidates may be marketed in the United States generally involves the following:

- completion of extensive preclinical laboratory tests, preclinical animal studies and formulation studies, all performed in accordance with the FDA's good laboratory practice, or GLP, regulations;

- submission to the FDA of an Investigational New Drug, or IND, application which must become effective before clinical trials may begin;

- performance of adequate and well-controlled clinical trials to establish the safety and efficacy of the product candidate for each proposed indication;
- performance of adequate and well-controlled clinical trials to establish the safety and efficacy of the product candidate for each proposed indication;
- submission of a New Drug Application, or NDA, to the FDA;
- satisfactory completion of an FDA pre-approval inspection of the manufacturing facilities at which the product is produced to assess compliance with current good manufacturing practice, or cGMP, regulations;
- FDA review and approval of the NDA prior to any commercial marketing, sale or shipment of the drug; and
- regulation of commercial marketing and sale of drugs.

This testing and approval process requires substantial time, effort and financial resources, and we cannot be certain that any approvals for our product candidates will be granted on a timely basis, if at all. Preclinical tests include laboratory evaluation of product chemistry, formulation and stability, as well as studies to evaluate toxicity in animals. The results of preclinical tests, together with manufacturing information and analytical data, are submitted as part of an IND application to the FDA. The IND automatically becomes effective 30 days after receipt by the FDA, unless the FDA, within the 30-day time period, raises concerns or questions about the conduct of the clinical trial, including concerns that human research subjects will be exposed to unreasonable health risks. In such a case, the IND sponsor and the FDA must resolve any outstanding concerns before the clinical trial can begin. Our submission of an IND, or those of our collaborators, may not result in FDA authorization to commence a clinical trial. A separate submission to an existing IND must also be made for each successive clinical trial conducted during product development. Further, an independent institutional review board, or IRB, for each medical center proposing to conduct the clinical trial must review and approve the plan for any clinical trial before it commences at that center and it must monitor the clinical trial until completed. The FDA, the IRB or the clinical trial sponsor may suspend a clinical trial at any time on various grounds, including a finding that the subjects or patients are being exposed to an unacceptable health risk. Clinical testing also must satisfy extensive GCP regulations and regulations for informed consent.

Clinical Trials

For purposes of an NDA submission and approval, clinical trials are typically conducted in the following three sequential phases, which may overlap:

- *Phase 1:* The clinical trials are initially conducted in a limited population to test the product candidate for safety, dose tolerance, absorption, metabolism, distribution and excretion in healthy humans or, on occasion, in patients, such as cancer patients. Phase 1 clinical trials can be designed to evaluate the impact of the product candidate in combination with currently approved drugs.
- *Phase 2:* These clinical trials are generally conducted in a limited patient population to identify possible adverse effects and safety risks, to determine the efficacy of the product candidate for specific targeted indications and to determine dose tolerance and optimal dosage. Multiple Phase 2 clinical trials may be conducted by the sponsor to obtain information prior to beginning larger and more expensive Phase 3 clinical trial.
- *Phase 3:* These clinical trials are commonly referred to as pivotal clinical trials. If the Phase 2 clinical trials demonstrate that a dose range of the product candidate is effective and has an acceptable safety profile, Phase 3 clinical trials are then undertaken in large patient populations to further evaluate dosage, to provide substantial evidence of clinical efficacy and to further test for safety in an expanded and diverse patient population at multiple, geographically dispersed clinical trial sites.

In some cases, the FDA may condition approval of an NDA for a product candidate on the sponsor's agreement to conduct additional clinical trials to further assess the drug's safety and effectiveness after NDA approval.

New Drug Application

The results of product candidate development, preclinical testing and clinical trials are submitted to the FDA as part of an NDA. The NDA also must contain extensive manufacturing information. Once the submission has been accepted for filing, by law the FDA has 180 days to review the application and respond to the applicant. The review process is often significantly extended by FDA requests for additional information or clarification. The FDA may refer the NDA to an advisory committee for review, evaluation and recommendation as to whether the application should be approved. The FDA is not bound by the recommendation of an advisory committee, but it generally follows such recommendations. The FDA may deny approval of an NDA if the applicable regulatory criteria are not satisfied, or it may require additional clinical data or an additional pivotal Phase 3 clinical trial. Even if such data are submitted, the FDA may ultimately decide that the NDA does not satisfy the criteria for approval. Data from clinical trials are not always conclusive and the FDA may interpret data differently than we or our collaborators do. Once issued, the FDA may withdraw a drug approval if ongoing regulatory requirements are not met or if safety problems occur after the drug reaches the market. In addition, the FDA may require further testing, including Phase 4 clinical trials, and surveillance programs to monitor the effect of approved drugs which have been commercialized. The FDA has the power to prevent or limit further marketing of a drug based on the results of these post-marketing programs. Drugs may be marketed only for the approved indications and in accordance with the provisions of the approved label. Further, if there are any modifications to a drug, including changes in indications, labeling or manufacturing processes or facilities, we may be required to submit and obtain FDA approval of a new NDA or NDA supplement, which may require us to develop additional data or conduct additional preclinical studies and clinical trials.

Fast Track Designation

The FDA's fast track program is intended to facilitate the development and to expedite the review of drugs that are intended for the treatment of a serious or life-threatening condition for which there is no effective treatment and which demonstrate the potential to address unmet medical needs for the condition. Under the fast track program, the sponsor of a new product candidate may request the FDA to designate the product candidate for a specific indication as a fast track drug concurrent with or after the filing of the IND for the product candidate. The FDA must determine if the product candidate qualifies for fast track designation within 60 days of receipt of the sponsor's request.

If fast track designation is obtained, the FDA may initiate review of sections of an NDA before the application is complete. This rolling review is available if the applicant provides and the FDA approves a schedule for the submission of the remaining information and the applicant pays applicable user fees. However, the time period specified in the Prescription Drug User Fees Act, which governs the time period goals the FDA has committed to reviewing an application, does not begin until the complete application is submitted. Additionally, the fast track designation may be withdrawn by the FDA if the FDA believes that the designation is no longer supported by data emerging in the clinical trial process.

In some cases, a fast track designated product candidate may also qualify for one or more of the following programs:

- *Priority Review.* Under FDA policies, a product candidate is eligible for priority review, or review within a six-month time frame from the time a complete NDA is accepted for filing, if the product candidate provides a significant improvement compared to marketed drugs in the treatment, diagnosis or prevention of a disease. We cannot suggest or in any way guarantee that any of our product candidates will receive a priority review designation, or if a priority designation is received, that review or approval will be faster than conventional FDA procedures, or that the FDA will ultimately grant drug approval.

- *Accelerated Approval.* Under the FDA's accelerated approval regulations, the FDA is authorized to approve product candidates that have been studied for their safety and effectiveness in treating serious or life-threatening illnesses, and that provide meaningful therapeutic benefit to patients over existing treatments based upon either a surrogate endpoint that is reasonably likely to predict clinical benefit or on the basis of an effect on a clinical endpoint other than patient survival. In clinical trials, surrogate endpoints are alternative measurements of the symptoms of a disease or condition that are substituted for measurements of observable clinical symptoms. A product candidate approved on this basis is subject to rigorous post-marketing compliance requirements, including the completion of Phase 4 or post-approval clinical trials to validate the surrogate endpoint or confirm the effect on the clinical endpoint. Failure to conduct required post-approval studies, or to validate a surrogate endpoint or confirm a clinical benefit during post-marketing studies, will allow the FDA to withdraw the drug from the market on an expedited basis. All promotional materials for product candidates approved under accelerated regulations are subject to prior review by the FDA. In rare instances the FDA may grant accelerated approval of an NDA based on Phase 2 data and require confirmatory Phase 3 studies to be conducted after approval and/or as a condition of maintaining approval. We can give no assurance that any of our drugs will be reviewed under such procedures.

When appropriate, we and our collaborators may attempt to seek fast track designation or accelerated approval for our product candidates. We cannot predict whether any of our product candidates will obtain a fast track or accelerated approval designation, or the ultimate impact, if any, of the fast track or the accelerated approval process on the timing or likelihood of FDA approval of any of our product candidates.

Satisfaction of FDA regulations and requirements or similar requirements of state, local and foreign regulatory agencies typically takes several years and the actual time required may vary substantially based upon the type, complexity and novelty of the product or disease. Typically, if a product candidate is intended to treat a chronic disease, as is the case with some of our product candidates, safety and efficacy data must be gathered over an extended period of time. Government regulation may delay or prevent marketing of product candidates for a considerable period of time and impose costly procedures upon our activities. The FDA or any other regulatory agency may not grant approvals for new indications for our product candidates on a timely basis, if at all. Even if a product candidate receives regulatory approval, the approval may be significantly limited to specific disease states, patient populations and dosages. Further, even after regulatory approval is obtained, later discovery of previously unknown problems with a drug may result in restrictions on the drug or even complete withdrawal of the drug from the market. Delays in obtaining, or failures to obtain, regulatory approvals for any of our product candidates would harm our business. In addition, we cannot predict what adverse governmental regulations may arise from future United States or foreign governmental action.

Other regulatory requirements

Any products manufactured or distributed by us or our collaborators pursuant to FDA approvals are subject to continuing regulation by the FDA, including recordkeeping requirements and reporting of adverse experiences associated with the drug. Drug manufacturers and their subcontractors are required to register their establishments with the FDA and certain state agencies and are subject to periodic unannounced inspections by the FDA and certain state agencies for compliance with ongoing regulatory requirements, including cGMP, which impose certain procedural and documentation requirements upon us and our third-party manufacturers. Failure to comply with the statutory and regulatory requirements can subject a manufacturer to possible legal or regulatory action, such as warning letters, suspension of manufacturing, seizure of product, injunctive action or possible civil penalties. We cannot be certain that we or our present or future third-party manufacturers or suppliers will be able to comply with the cGMP regulations and other ongoing FDA regulatory requirements. If our present or future third-party manufacturers or suppliers are not able to comply with these requirements, the FDA may halt our clinical trials, require us to recall a product from distribution, or withdraw approval of that product.

The FDA closely regulates the post-approval marketing and promotion of drugs, including standards and regulations for direct-to-consumer advertising, off-label promotion, industry-sponsored scientific and educational activities and promotional activities involving the Internet. A company can make only those claims relating to safety and efficacy that are approved by the FDA. Failure to comply with these requirements can result in adverse publicity, warning letters, corrective advertising and potential civil and criminal penalties. Physicians may prescribe legally available drugs for uses that are not described in the drug's labeling and that differ from those tested by us and approved by the FDA. Such off-label uses are common across medical specialties. Physicians may believe that such off-label uses are the best treatment for many patients in varied circumstances. The FDA does not regulate the behavior of physicians in their choice of treatments. The FDA does, however, impose stringent restrictions on manufacturers' communications regarding off-label use.

European Union

The European Medicines Agency, or EMA, is a decentralized agency of the European Union, located in London. The Agency is responsible for the scientific evaluation of medicines developed by pharmaceutical companies for use in the European Union, as well as the protection and promotion of public health through the evaluation and supervision of medicines for human use.

Under European Union regulatory systems, we may submit marketing authorization applications either under a centralized or decentralized procedure. The centralized procedure, which is compulsory for medicines produced by biotechnology or those medicines intended to treat AIDS, cancer, neurodegenerative disorders, or diabetes and optional for those medicines which are highly innovative, provides for the grant of a single marketing authorization that is valid for all European Union member states. The decentralized procedure provides for mutual recognition of national approval decisions. Under this procedure, the holder of a national marketing authorization may submit an application to the remaining member states. Within 90 days of receiving the applications and assessments report each member state must decide whether to recognize approval. If a member state does not recognize the marketing authorization, the disputed points are eventually referred to the European Commission, whose decision is binding on all member states.

Reimbursement

Sales of pharmaceutical products depend in significant part on the availability of third-party reimbursement. Third-party payers include government health administrative authorities, managed care providers, private health insurers and other organizations. We anticipate third-party payers will provide reimbursement for our products. However, these third-party payers are increasingly challenging the price and examining the cost-effectiveness of medical products and services. In addition, significant uncertainty exists as to the reimbursement status of newly approved healthcare products. We may need to conduct expensive pharmacoeconomic studies in order to demonstrate the cost-effectiveness of our products. Our product candidates may not be considered cost-effective. It is time consuming and expensive for us to seek reimbursement from third-party payers. Reimbursement may not be available or sufficient to allow us to sell our products on a competitive and profitable basis.

The passage of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, or the MMA, imposes new requirements for the distribution and pricing of prescription drugs for Medicare beneficiaries, and includes a major expansion of the prescription drug benefit under a new Medicare Part D. Under Part D, Medicare beneficiaries may enroll in prescription drug plans offered by private entities which will provide coverage of outpatient prescription drugs. Part D plans include both stand-alone prescription drug benefit plans and prescription drug coverage as a supplement to Medicare Advantage plans. Unlike Medicare Part A and B, Part D coverage is not standardized. Part D prescription drug plan sponsors are not required to pay for all covered Part D drugs, and each drug plan can develop its own drug formulary that identifies which drugs it will cover and at what tier or level. However, Part D prescription drug formularies must include drugs within each therapeutic category and class of covered Part D drugs, though not necessarily all the drugs in each category or class. Any formulary used by a Part D prescription drug plan must be developed and reviewed by a pharmacy and therapeutic committee.

It is not clear what effect the MMA will have on the prices paid for currently approved drugs and the pricing options for future approved drugs. Government payment for some of the costs of prescription drugs may increase demand for products for which we receive marketing approval. However, any negotiated prices for our products covered by a Part D prescription drug plan will likely be lower than the prices we might otherwise obtain. Moreover, while the MMA applies only to drug benefits for Medicare beneficiaries, private payers often follow Medicare coverage policy and payment limitations in setting their own payment rates. Any reduction in payment that results from the MMA may result in a similar reduction in payments from non-governmental payers.

On February 17, 2009, President Obama signed into law the American Recovery and Reinvestment Act of 2009. This law provides funding for the federal government to compare the effectiveness of different treatments for the same illness. A plan for the research will be developed by the Department of Health and Human Services, the Agency for Healthcare Research and Quality and the National Institutes for Health, and periodic reports on the status of the research and related expenditures will be made to Congress. Although the results of the comparative effectiveness studies are not intended to mandate any policies for public or private payers, it is not clear what if any effect the research will have on the sales of our product candidates if any such product candidate or the condition that it is intended to treat is the subject of a study. Decreases in third-party reimbursement for our product candidates or a decision by a third-party payer to not cover our product candidates could reduce physician usage of the product candidate and have a material adverse effect on our sales, results of operations and financial condition.

We expect that there will continue to be a number of federal and state proposals to implement governmental pricing controls and limit the growth of healthcare costs, including the cost of prescription drugs. For example, in March 2010, President Obama signed one of the most significant health care reform measures in decades, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act, collectively referred to as the PPACA. The PPACA will significantly impact the pharmaceutical industry. The PPACA will require discounts under the Medicare drug benefit program and increased rebates on drugs covered by Medicaid. In addition, the PPACA imposes an annual fee, which will increase annually, on sales by branded pharmaceutical manufacturers starting in 2011. The financial impact of these discounts, increased rebates and fees and the other provisions of the PPACA on our business is unclear.

In addition, in some foreign countries, the proposed pricing for a drug must be approved before it may be lawfully marketed. The requirements governing drug pricing vary widely from country to country. For example, the European Union provides options for its member states to restrict the range of medicinal products for which their national health insurance systems provide reimbursement and to control the prices of medicinal products for human use. A member state may approve a specific price for the medicinal product or it may instead adopt a system of direct or indirect controls on the profitability of the company placing the medicinal product on the market. There can be no assurance that any country that has price controls or reimbursement limitations for pharmaceutical products will allow favorable reimbursement and pricing arrangements for any of our product candidates.

MANAGEMENT

Directors

Our Articles of Association, as amended, provide that our business is to be managed by or under the direction of the board of directors. Our board of directors is divided into three classes for purposes of election. One class is elected at each annual meeting of stockholders to serve for a three-year term. Our board of directors currently consists of seven members, classified into three classes. Mark Cohen serves as Executive Chairman of our board of directors. The following table presents the names of the current members of our board of directors.

Name	Director Class and Position
Mark S. Cohen	Class C Director - Executive Chairman of the Board; Nominating and Corporate Governance Committee.
Yuval Cohen, Ph.D.	Class B Director
David Sidransky, M.D.	Class C Director - Compensation Committee (Chairman); Nominating and Corporate Governance Committee
Dr. Johnson Yiu-Nam Lau, M.B.,B.S., M.D., F.R.C.P.	Class B Director - Audit Committee
Prof. Saul Yedgar, Ph.D.	Class A Director - Chief Scientific Officer
Amos Eiran	Class B Director - Audit Committee;
Fredric Price	Class A Director - Compensation Committee; Nominating and Corporate Governance Committee (Chairman)
Robert F. Doman	Class A Director - Compensation Committee
Allan Shaw	Class A Director - Audit Committee (Chairman)

Biographical information of the members of our board of directors is set forth below.

Mark S. Cohen, age 46, has served as the Chairman of our board of directors since December 21, 2004. Currently, he is a senior partner and the chair of the life sciences group at the law firm Pearl Cohen Zedek Latzer, LLP, which he joined in 1999. Mr. Cohen holds a B.A. in biochemistry from Rutgers University, an M.S. in biology from New York University and a J.D. from University of Baltimore School of Law. He is admitted to practice law in New York, New Jersey and Israel, and he is a registered patent attorney in the United States.

David Sidransky, M.D., age 53, has served as a director of our board of directors since June 13, 2007. Currently, Mr. Sidransky serves as a Prof. of oncology at the Johns Hopkins University in Baltimore, and has held this position since 1996. He served as Vice Chairman of the Board of Directors of Imclone until the sale of the company to Eli Lily. He also serves as a member of the board of directors of K–V Pharmaceutical Company (NYSE: KV-A), Tamir Biotechnology, Inc. (ACLE.PK), Rosetta Genomics (NASDAQ:ROSG) and Champions Oncology, Inc. (OTCBB: CSBR). Dr. Sidransky holds a B.S. in chemistry from Brandeis University and an M.D., specializing in Oncology, from Baylor College of Medicine.

Johnson Yiu Nam Lau, M.B.,B.S., M.D., F.R.C.P., age 53, has served as a member of our board of directors since May 2, 2007. Currently, he serves as the chairman and CEO of Kinex Pharmaceuticals LLC, a drug discovery and development biotech company, which he joined in 2003. He also serves as a member of the board of directors and Chairman of each of the Audit and Risk Management and Nominating and Corporate Governance Committees of Chelsea Therapeutics International, Ltd. (NASDAQ: CHTP). Dr. Lau holds an M.B.B.S. and M.D. from the University of Hong Kong and an M.R.C.P. and an F.R.C.P. from the Royal College of Physicians.

Saul Yedgar, Ph.D., age 72, has served as a member of our board of directors since January 28, 2005, and in addition currently holds the position of Chief Scientific Officer. Since June 2010, he has been a Prof. Emeritus of the Hebrew University of Jerusalem School of Medicine, where he served as a Prof. of Biochemistry since 1982. Prof. Yedgar carried out work at the NIH, Bethesda, MD; Institute Curie, Paris; and Aachen University of Applied Sciences, Germany. He is a member of various international scientific committees and editorial boards, including the European the International Biorheology Society, and the Journal Biorheology for Biorheology and Microcirculation Society, and has received the following international awards: The Hebrew University-Hadassah Medical School Prize for Outstanding Ph.D. research; The Hadassah University-Hospital Postdoctoral award; CNRS (Centre National RechercheScientific) fellowship for research in Institut Curie, France; The US Cystic Fibrosis Foundation award for new ideas in Cystic Fibrosis research; The Henri de Rothchild award for research in Institut Curie, Paris, France; The Walter & Greta Stiel Chair in Heart Studies (Hebrew University); and the Kaye Innovation Prize for inventing and development of the platform of the Multi-Functional Anti-Inflammatory drugs (licensed to Morria). Prof. Yedgar has authored over 120 scientific papers. Prof. Yedgar received his B.S. from the Bar-Ilan University Dept. of Chemistry, his M.S. from The Hebrew University, Dept. of Physical Chemistry and his Ph.D. from The Hebrew University-Hadassah Medical School, Jerusalem in 1977. Prof. Yedgar also conducted post-doctoral studies at the University of California, San Diego, Department of Medicine, after which he received his position in 1982 at the Department of Biochemistry at the Hebrew University Faculty of Medicine in Jerusalem.

Amos Eiran, age 77, has served as a member of our board of directors since June 28, 2012. From November 1972 to June 1975 and from June 1977 to June 1988, he served as the CEO and Chairman of Mivtahim, Israel's largest pension fund. From June 1974 to May 1988, Mr. Eiran served as a director of Bank HaPoalim and from August 1993 to August 1997, served as director of Bank HaMizrahi, from March 1993 to August 1997, as chairman of BioLight Israeli Life Sciences Investments Ltd from March 2007 to May 2011. From May 1988 to August 1990, he served as the President of the University of Haifa. Since January 2000, he has been serving on the board of directors of Clal-Bituah and Delek Explorations. From June 1975 to June 1977, Mr. Eiran served as Director General of the Prime Minister's Office, during the term of Prime Minister Itzhak Rabin. Mr. Eiran holds a B.A. from American University (Washington DC) in humanities and M.A. in history from Tel Aviv University, and a diploma in institutional investments from Wharton School of Business.

Fredric Price, age 67, has served as a member of our board since June 20, 2013. Mr. Price is Executive Chairman of the Board of Directors of Chiasma, having served as its Chairman and CEO from 2008 to 2013, stepping down as CEO a month ago after completing a strategic collaboration for its Phase 3 oral drug candidate in acromegaly with Roche. Previously, he was Executive Chairman of the Board of Directors of Omrix Biopharmaceuticals (2004-2008) a member of the Board of Directors of Enobia Pharma (2006-2012), a member of the Board of Directors of Pharmasset (2007-2010), Executive Chairman of the Board of Directors of Peptimmune (2007-2011), Chairman of the Board of Directors and CEO of BioMarin Pharmaceutical (2000-2004) and CEO and a member of the Board of Directors of Applied Microbiology (1994-2000). Mr. Price is also currently serving as Chairman of the Board of BioBlast and a member of the Advisory Board of FDNA. His earlier experience includes having been Vice President of Finance and Administration and CFO of Regeneron Pharmaceuticals (1991-1994), the founder of the strategy consulting firm RxFDP (1986-1991), and Vice President of Pfizer Pharmaceuticals with both line and staff responsibilities (1973-1986). He received a BA from Dartmouth College and an MBA from the Wharton School of the University of Pennsylvania.

Robert F. Doman, age 63, has served as a member of our board since June 20, 2013. Mr. Doman is a seasoned pharmaceutical and medical device executive with 30+ years of extensive international and domestic experience in general management, business development, building sales and marketing capabilities, new product development and strategic planning. Most recently Bob served as President and Chief Executive Officer of DUSA Pharmaceuticals, Inc., a publicly traded specialty pharmaceutical and medical device company focused in the field of dermatology. He joined DUSA in 2005 as President and Chief Operating Officer and was promoted to President and Chief Executive Officer in June 2007. DUSA was acquired by Sun Pharma in June of 2012. Prior to joining DUSA Pharmaceuticals, Bob served as President of Leach Technology Group, the medical electronic device, design, product development and contract manufacturing services division of privately held Leach Holding Corporation. From 1999 to 2000, Bob served as President, Device Product Development of West Pharmaceutical Services, a manufacturer of systems and device components for parentally administered medicines and drugs. From 1991 to 1999, Bob worked for the Convatec division of Bristol–Myers Squibb in positions that included: Vice President, Worldwide Marketing and Business Development; Vice President and General Manager, U.S. Wound and Skin Care; and Vice President, U.S. Operations. Earlier in his career, Bob held sales, marketing and business development roles of increasing responsibilities for Critikon, Inc., a Johnson and Johnson company. While serving as Business Director for Vascular Access he licensed and launched the first Intravenous Catheter with needle-stick protection, which is the industry standard today. Bob currently serves as a member of the Board of Directors of Echo Therapeutics, Inc. (NASDAQ: ECTE). He received a Bachelor's degree from Saint Joseph's University where he has served as a member of the Development Committee and the Haub School of Business Advisory Board.

Allan L. Shaw, age 49, has served as a member of our board of directors since October 2, 2013. Mr. Shaw currently leads Alvarez & Marsal's biopharmaceutical consulting practice and served as a member of the Board of Directors for the Central New York Biotech Accelerator (formerly Central New York-Biotech Research Center). Previously, he worked as Chief Financial Officer and executive management board member of Serono International S.A., a global biotechnology company and the largest in Europe. He was also the founder and Senior Managing Director of Shaw Strategic Capital LLC, an international financial advisory firm, focused on providing strategic financial counsel on a wide variety of issues such as general corporate finance, mergers and acquisitions, capital structuring, licensing and capital markets. His clients included a biopharmaceutical licensing / developmental group and an international investment bank, for which he served as a strategic adviser. Mr. Shaw has served as a Board member and Chief Financial Officer for NewLead Holdings LTD (NEWL), as well as an independent board member of Navios Maritime Holdings Inc.'s, serving as Chairman for Navios' Audit (designated financial expert) and Compensation Committees. He has contributed to several corporate governance books and is a member of the American Institute of Certified Public Accountants, New York Society of Certified Public Accountants and Corporate Directors Group. Mr. Shaw graduated with a Bachelor of Science from the State University of New York (Oswego College), and is a certified public accountant in the State of New York.

Yuval Cohen, Ph.D., age 38, served as our President, and a member of our board of directors, since January 12, 2005 and since February 2013 has served as Senior Vice President. Dr. Cohen holds a B.S. in microbiology and biochemistry from University of Cape Town, South Africa, and a Ph.D. in toxicology, summa cum laude, from University of Paris and the Curie Institution.

Executive Officers

There are no family relationships among officers and directors of Celsus.

The executive officers of Celsus are responsible for the day-to-day management of the Company. The following table lists the names and positions of our executive officers.

Name	Position
Gur Roshwalb, M.D.	Chief Executive Officer
Dov Elefant	Chief Financial Officer
Prof. Saul Yedgar, Ph.D.	Chief Scientific Officer
Pablo Jimenez, M.D.	Chief Medical Officer

Biographical information of our executive officers is set forth below. Biographical information for Drs. Cohen and Yedgar is set forth above under "Directors."

Gur Roshwalb , age 45, has served as our Chief Executive Officer since March 4, 2013. Prior to joining us, from April 2008 to February 2012, Dr. Roshwalb was employed by Venrock, a leading venture capital firm, where he most recently served as a Vice President investing in both private and public healthcare companies. At Venrock, Dr. Roshwalb was involved in the valuation, diligence and deal structuring of numerous pharmaceutical and biotechnology companies. Prior to Venrock, Dr. Roshwalb was a senior equity analyst at Piper Jaffray from June 2004 to March 2008 where he published research on specialty pharmaceutical companies. Dr. Roshwalb was in private practice in New York and Board Certified in Internal Medicine before joining the investment community. He received an MBA from the NYU Stern School of Business, and an MD from the Albert Einstein College of Medicine.

Dov Elefant, age 45, has served as our Chief Financial Officer since January 11, 2012. From March 2011 until January 2012, he was Chief Financial Officer of Althera Medical Ltd. and from March 2009 to February 2011 he performed consulting services to a number of companies. He was also the Corporate Controller, from March 2007 to February 2009 for Lev Pharmaceuticals (OTCBB:LEVP), which was acquired by ViroPharma in 2008,Controller and Vice President of Finance and Administration at EpiCept Corporation (NASDAQ:EPCT.PK) from December 1999 to March 2007,Assistant Controller at Tetragenex Pharmaceuticals from November 1998 to October 1999 and held other accounting and finance roles from March 1991 to October 1998. Mr. Elefant holds a B.S. in accounting from Yeshiva University.

Pablo Jimenez, M.D., age 49, has served as our Chief Medical Officer since October 23, 2013. Dr. Jimenez is a senior pharmaceutical executive with more than twenty years of success in clinical development and medical affairs within the respiratory, dermatology, wound healing and oncology therapeutic areas. He brings a strong background in product business development in inflammation, immunology and tissue engineering. Within Novartis Pharma Clinical Development and Medical Affairs, he held positions of increasing responsibility including: Global Clinical Program Leader Apligraf®, Global Project Section Leader Elidel®, Global Brand Medical Director Xolair®, Global Head, Medical Services and Global Head of Medical Education & Communications. Dr. Jimenez worked at Novartis from May 2001 to September 2011. From September 2011 to March 2012, Dr. Jimenez was employed by Sotio, a Czech drug development company, as their Chief Medical Officer, where he was responsible for their global clinical portfolio, including clinical development, marketing strategy and regulatory compliance. From July 2012 to present, he has served as the founder and CEO of Qara Bio-Pharmaceutical Solution, LLC, a boutique medical writing and drug development strategy consulting firm. He received his MD from Central University School of Medicine in Ecuador and Master's Certificate in Project Management from the George Washington University School of Business and Public Management. Dr. Jimenez did his Post-Doctoral research work at Brown University, Division of Biology and Medicine.

Dr. Jimenez replaced Alan Harris, M.D. as our Chief Medical Officer. Dr. Harris resigned on October 22, 2013.

Compensation

The following table provides information on all compensation paid, or due to be paid, by our company to each of our directors and executive officers during the year ended December 31, 2012:

Name	Cash	Stock Options	Other
Mark S. Cohen	$ 4,051(1)	0	0
Yuval Cohen, Ph.D.	$ 171,124(2)	0	0
Dr. Johnson Yiu Nam Lau, M.B.,B.S., M.D., F.R.C.P.	$ 2,498(3)	0	0
Gilead Raday	$ 3,274(4)	0	0
David Sidransky, M.D.	$ 4,051(5)	0	0
Prof. Saul Yedgar, Ph.D.	$ 4,051(6)	0	0
Dov Elefant	$ 145,968(7)	0	0
Gur Roshwalb, MD (8)	$ 0	0	0
Pablo Jimenez, MD (9)	$ 0	0	0

(1) Consists of board of directors fees.

(2) Dr. Yuval Cohen served as our President until February 2013 and is no longer an executive officer. He received an annual salary of £103,730 from Celsus and board of directors fees of $4,051. We have used a conversion rate of $1.61065 as of December 31, 2012 to convert Dr. Cohen's annual salary to United States Dollars.

(3) Consists of board of directors fees.

(4) Consists of board of directors.

(5) Consists of board of directors fees.

(6) Consists of board of directors fees.

(7) Since January 2012, Mr. Elefant has been earning a salary in the amount of $12,500 per month. On June 20, 2012, Mr. Elefant received, as compensation a single grant of options to purchase up to 40,000 Ordinary Shares at an exercise price of $1.56 per share, which options fully vested on January 11, 2013 and expire on January 11, 2022.

(8) Dr. Roshwalb joined our company on March 4, 2013 and was not employed by us during 2012.

(9) Dr. Jimenez was appointed as our Chief Medical Officer on October 23, 2013.

Employee Stock Option Plan

On August 28, 2007, our Board of Directors approved the 2007 Stock Option Plan, or the ESOP, amended on April 26, 2012, June 20, 2012 and April 29, 2013. Our shareholders approved the ESOP on June 20, 2013. The purpose of the ESOP is to provide an additional incentive to employees, officers, directors, consultants and other service providers of Celsus and any parent or subsidiary of Celsus (each as defined in the ESOP) to further the growth, development and financial success of our company by providing them with opportunities to purchase our shares pursuant to the ESOP and to promote the success of our business. The material terms of the ESOP are set forth below.

The option plan is administered by our board of directors and grants are made pursuant thereto by the Compensation Committee. The aggregate number of Ordinary Shares that may be issued upon exercise of options under the ESOP Plan shall not exceed 3,865,000 Ordinary Shares. Our board of directors may, at any time during the term of the ESOP Plan, increase the number of shares available for grant under the ESOP Plan. Options may be granted at any time. As of October 23, 2013, options to purchase 2,138,990 of our Ordinary Shares were outstanding. Unless sooner terminated, the Plan shall expire on the tenth anniversary of its effective date, or August 28, 2017.

The per share exercise price for the shares to be issued pursuant to the exercise of an option shall be such price as determined by our board of directors and set forth in the individual option agreement, subject to any guidelines as may be determined by our board of directors from time to time, provided, however, that the exercise price shall be not less than the par value of the shares underlying the option, and subject to other conditions set forth in the ESOP Plan.

Options are exercisable pursuant to the terms under which they were awarded and subject to the terms and conditions of the ESOP Plan. In general, an option, or any part thereof, may not be exercised unless the optionee is then a service provider of our company or any parent or subsidiary thereof (as each such term is defined in the ESOP Plan).Any tax consequences arising from the grant or exercise of any option from the payment for shares covered thereby, the sale or disposition of such shares and any other expenses are the responsibility of the optionee unless otherwise required by applicable law.

The table below sets forth the material terms of the outstanding options that were granted by us to our directors and executive officers as of December 31, 2012:

Optionee	Date of Grant	No. of Options Granted [1]	Vesting Date	Expiration
Johnson Lau	August 28, 2007	68,250	Fully vested	August 28, 2017
Mark Cohen	August 28, 2007	136,500	Fully vested	August 28, 2017
Yuval Cohen	August 28, 2007	27,300	Fully vested	August 28, 2017
David Sidransky	August 28, 2007	68,250	Fully vested	August 28, 2017
	February 5, 2008	60,227	Fully vested	February 5, 2018
Gilead Raday	N/A	0	N/A	N/A
Amos Eiran	N/A	0	N/A	N/A
Dov Elefant	N/A	0	N/A	N/A

(1) All the August 28, 2007 options have an exercise price of £0.80 per share (or $1.61 per share) and the options granted to Dr. Sidransky on February 5, 2008 have an exercise price of £0.79 per share (or $1.58 per share).

In addition, the table below sets forth the options with an exercise price of $1.56 per share that were granted by us to our directors, executive officers and key employees in 2012:

Optionee	Date of Grant	No. of Options Granted [1]	Vesting Date	Expiration
Yuval Cohen	April 26, 2012	30,000	June 20, 2012	June 20, 2022
Yuval Cohen	April 26, 2012	25,000	March 19, 2013	March 19, 2022
Gilead Raday	April 26, 2012	30,000 *	June 20, 2012	June 20, 2022
Gilead Raday	April 26, 2012	25,000 *	March 19, 2013	March 19, 2022
Johnson Lau	April 26, 2012	30,000	June 20, 2012	June 20, 2022
Johnson Lau	April 26, 2012	25,000	March 19, 2013	March 19, 2022
David Sidransky	April 26, 2012	30,000	June 20, 2012	June 20, 2022
David Sidransky	April 26, 2012	25,000	March 19, 2013	March 19, 2022
Mark Cohen	April 26, 2012	60,000	June 20, 2012	June 20, 2022
Mark Cohen	April 26, 2012	75,000	March 19, 2013	March 19, 2022
Dov Elefant	April 26, 2012	40,000	January 11, 2013	January 11, 2022
Amos Eiran	June 28, 2012	15,000	June 28, 2013	June 28, 2022

*) These options expired due to non-exercise following Mr. Raday's term as a director.

Other Director Compensation

On June 16, 2005, we entered into an agreement with Mr. Gilead Raday pursuant to which he agreed to serve as a director of Morria. On March 14, 2007, Mr. Raday signed an amendment, under which he is entitled to a £500 fee for each board or committee meeting. On March 7, 2012, he agreed to waive all accrued fees owed to him under that agreement. In addition, we had agreed to pay Mr. Gilead Raday of CSSCM a retainer fee of £1,500 per quarter for financial advisory services through 2011, which, as of December 31, 2012, has accrued to approximately $49,000.

On February 18, 2005, we entered into an agreement with Mr. Mark Cohen pursuant to which he agreed to act as Chairman of our board of directors. Under the terms of that agreement, he is entitled to a fee of £1,000 for each meeting he attends. On February 13, 2011, Mr. Cohen confirmed that since 2005 he had agreed to waive all accrued fees owed to him under that agreement.

On February 21, 2005, we entered into an agreement with Professor Yedgar pursuant to which he agreed to act as a director of the Company for an initial term of 24 months. Under that agreement, Professor Yedgar was entitled, with effect from January 1, 2005, until the date on which the Company completed an offering raising up to £1,900,000, to be paid £1,000 for each board meeting he attended, subject to completion of such an offering, plus reimbursement of expenses reasonably incurred by him. On March 14, 2007, we entered into an agreement with Prof. Yedgar for his reappointment as a member of our board of directors. Under that agreement, Prof. Yedgar is entitled to £500 for every meeting he attends. To date, no amounts have been paid to Prof. Yedgar under this agreement and, on February 22, 2011, Prof. Yedgar agreed to waive all accrued fees owed to him as of such date.

On August 28, 2007, we entered into an agreement with Dr. Lau pursuant to which he agreed to serve as a director of Morria. Under the terms of that agreement, he is entitled to a fee of £750 for each meeting he attends. On February2, 2011, Dr. Lau agreed to waive all accrued fees owed to him under that agreement.

On August 28, 2007, we entered into an agreement with Dr. Sidransky pursuant to which he agreed to serve as a director of Morria. Under the terms of that agreement, he is entitled to a fee of £750 for each meeting he attends. On February2, 2011, Dr. Sidransky agreed to waive all accrued fees owed to him under that agreement.

On March 19, 2012, annual cash compensation for the non-employee directors was established at $10,000 per year for four board meetings per year (or $2,500 per meeting) as well as $4,000 per year for the Chairman of each committee; commencing on the first day of the month after the Company completes a Permitted Private Placement as defined in the Purchase Agreement.

On April 29, 2013, annual cash compensation for the non-employee directors (excluding Prof. Yedgar and Dr. Cohen) was established at $25,000 per, $10,000 per year for the Chairman of each committee and $10,000 per year for the Executive Chairman; commencing on the completion of September 2013 private placement. On September 24, 2013, we granted 100,000 options each to Mark Cohen, David Sidransky and Fredric Price and 70,000 options each to Johnson Lau, Amos Eiran and Robert Doman. On October 2, 2013, we granted 100,000 options to Allan Shaw.

We have agreed to indemnify our directors and executive officers to the extent permitted by our director and officer liability insurance and English law.

We do not have, and have not had in the past, any bonus or profit-sharing plans, nor have we set aside or accrued any amounts to provide pension, retirement or similar benefits.

Employment and Consulting Agreements

Dr. Gur Roshwalb. On March 4, 2013, we entered into an employment agreement with Dr. Roshwalb to be our Chief Executive Officer. The employment agreement, which is governed by New York law, is terminable by either party, upon three months' prior written notice. In addition, we are entitled to terminate Dr. Roshwalb's employment immediately, under certain circumstances, including, among other things, upon the occurrence of a material, recurring, continuing or fundamental breach of his obligations under the employment agreement, bankruptcy, inability to perform his duties under the employment agreement or criminal conviction under certain circumstances.

The annualized salary of Dr. Roshwalb shall be $350,000, plus reimbursement of out-of-pocket expenses incurred by him in the course of his duties. The board of directors will review Dr. Roshwalb's salary annually, although it is not obligated to increase it. In addition, he is entitled to receive an option to purchase 560,000 Ordinary Shares under our stock option plan as soon as practicable following our June 2013 Annual General Meeting. The exercise price of such option will be equal to the greater of $2.00 per Ordinary Share or the fair market value (as such term in defined by the option plan) of an Ordinary Share on the effective date of the grant. On each anniversary of the effective grant date, 25% of the shares subject to the option shall vest, subject to Dr. Roshwalb's continued employment on each such vesting date and full vesting upon a change of control. Upon our closing of a financing of issued securities of no less than $15,000,000, Dr. Roshwalb shall be granted an option to purchase 100,000 Ordinary Shares under our option plan, which shall have the same exercise price and same vesting provisions as set forth above. At the sole discretion of the Board of Directors or the Compensation Committee of the Board, following each calendar year of employment, Dr. Roshwalb shall be eligible to receive an additional cash bonus of up to thirty-three percent (33%) of his base salary, based on the attainment of certain clinical development, and/or business milestones to be established annually by the Board or the Compensation Committee. On September 24, 2013, Dr. Roshwalb was granted options to purchase up to 660,000 Ordinary Shares under the ESOP at an exercise price of $2.00, which options fully vest on September 24, 2017.

Upon termination of Dr. Roshwalb's employment without cause, in addition to any accrued but unpaid base salary and expense reimbursement, he shall be entitled to receive an amount equal to 12 months of base salary at the highest annualized rate in effect at any time before the employment terminates payable in substantially equal installments. Dr. Roshwalb shall also be entitled to COBRA continuation coverage paid in full by us for up to a maximum of twelve (12) months following the date of termination.

The employment agreement includes a non-competition covenant that, during the term of his employment by us, Dr. Roshwalb cannot be involved, directly or indirectly, in any competing activity or any activity that may pose competition to or harm us, and for a period of six months after the termination of the agreement with us, to be involved in or provide any consultation services to any business that competes, or that is likely to compete with our business. Dr. Roshwalb also cannot engage in any activity outside the scope of his employment without our prior approval. Dr. Roshwalb is also obligated to keep confidential the confidential information of our company. In addition, the intellectual property and the technology that are developed during the provision of these services will be owned by us.

Prof. Saul Yedgar. On February 21, 2005, we entered into a consulting agreement with Prof. Yedgar, pursuant to which Prof. Yedgar agreed to render services to us in the field of compound research and development, clinical trials design and other projects as specified by us from time to time in accordance with the board of directors' requirements. This consulting agreement was terminable by either party upon 90 days' prior notice. The agreement included a non-competition provision that prohibited Prof. Yedgar, for a period of six months after the termination of such agreement with us, to be involved in or provide any consultation services to any business that competes, or that is likely to compete, with our business.

The agreement states that no employer-employee relationship shall exist between the parties, and if a competent court rules that such employer-employee relationship exists, Prof. Yedgar agrees to indemnify the Company for up to 45% of the consideration paid to him under the consulting agreement. In consideration for his services, Prof. Yedgar is entitled to a fee of £750 for each working day, up to a maximum of five working days per month (any additional days is subject to our prior approval) and no more than an aggregate of £12,000in fees per annum.

On February 21, 2005, we entered into an agreement with Professor Yedgar pursuant to which he agreed to act as a director of the Company for an initial term of 24 months. Under that agreement, Professor Yedgar was entitled, with effect from January 1, 2005, until the date on which the Company completed an offering raising up to £1,900,000, to be paid £1,000 for each board meeting he attended, subject to completion of such an offering, plus reimbursement of expenses reasonably incurred by him. The agreement also included standard confidentiality provisions and provisions on non-solicitation of customers and employees of the Company for a period of two years after the termination of his services under that agreement.

On March 14, 2007, we entered into an agreement with Prof. Yedgar for his reappointment as a member of our board of directors. Under that agreement, Prof. Yedgar is entitled to £500 for every meeting he attends. The agreement includes a customary non-compete provision for a period of six months after his resignation or departure from the Company. To date, no amounts have been paid to Prof. Yedgar under this agreement and, on February 22, 2011, Prof. Yedgar agreed to waive all accrued fees owed to him as of such date.

Effective as of May 25, 2011, the consulting agreement described above was terminated and we entered into an employment agreement with Prof. Yedgar, which is governed by English law, pursuant to which he agreed to serve as our Chief Scientific Officer for a period of 60 months. This agreement may be terminated by: (a) either party, upon 30 days' prior notice, or (b) immediately by the Company, under certain circumstances, including material, recurring, continuing or a fundamental breach of his obligations under the agreement and his criminal conviction under certain circumstances. Prof. Yedgar is entitled to a monthly salary of NIS 8,312, or approximately an annual salary of £17,000, plus reimbursement of reasonable out-of-pocket expenses incurred by him in performing his duties once the Company completes its private placement. Our board of directors is authorized to review Prof. Yedgar's salary on annual basis, although it is not obligated to increase it. Prof. Yedgar is also entitled to 20 vacation days per year.

The employment agreement also includes a non-competition covenant that prohibits Prof. Yedgar, for a period of six months after the termination of his employment with us, to be involved in or provide technical, commercial or professional services to any business that competes, or is likely to compete, with our business in the United Kingdom, Israel or the United States. Prof. Yedgar is also obligated to keep confidential the confidential information of our Company.

The employment agreement also requires the approval of our board of directors in connection with the following actions: (a) incurring any capital expenditure in excess of any sum authorized by the board; and (b) obligate the Company, without prior written authorization from the Chief Executive Officer.

Dov Elefant. Effective January 11, 2012, we entered into an employment agreement with Mr. Elefant, our Chief Financial Officer. The employment agreement, which is governed by English law, is terminable by either party, upon three months' prior notice. In addition, we are entitled to terminate Mr. Elefant's employment immediately, under certain circumstances, including, among other things, upon the occurrence of a material, recurring, continuing or fundamental breach of his obligations under the employment agreement, bankruptcy, inability to perform his duties under the employment agreement or criminal conviction under certain circumstances. The board of directors will review Mr. Elefant's salary annually, although it is not obligated to increase it.

The annualized salary of Mr. Elefant was $150,000, plus reimbursement of out-of-pocket expenses incurred by him in the course of his duties. Effective with the closing of the September private placement, Mr. Elefant annualized salary increased to $200,000. Under the terms of his employment agreement, on June 20, 2012, the Board granted Mr. Elefant options to purchase up to 40,000 Ordinary Shares under the ESOP at an exercise price of $1.56 per share, which options fully vested on January 11, 2013. On September 24, 2013, Mr. Elefant was granted options to purchase up to 100,000 Ordinary Shares under the ESOP at an exercise price of $2.00, which options fully vest on July 1, 2014.

The employment agreement includes a non-competition covenant that, during the term of his employment by us, Mr. Elefant cannot be involved, directly or indirectly, in any competing activity or any activity that may pose competition to or harm us, and for a period of six months after the termination of the agreement with us, to be involved in or provide any consultation services to any business that competes, or that is likely to compete with our business. Mr. Elefant also cannot engage in any activity outside the scope of his employment without our prior approval. Mr. Elefant is also obligated to keep confidential the confidential information of our Company. In addition, the intellectual property and the technology that are developed during the provision of these services will be owned by us.

Pablo Jimenez, M.D. On October 23, 2013, we entered into an employment agreement with Dr. Pablo Jimenez to be our Chief Medical Officer. The employment agreement, which is governed by New York law, is terminable by either party upon three months' prior notice. In addition, we are entitled to terminate Dr. Jimenez's employment immediately, under certain circumstances, including, among other things, upon the occurrence of a material, recurring, continuing or fundamental breach of his obligations under the employment agreement, bankruptcy, inability to perform his duties under the employment agreement and criminal conviction under certain circumstances.

The annualized salary of Dr. Jimenez shall be $240,000 (or $20,000 per month), plus reimbursement of out-of-pocket expenses incurred by him in the course of his duties. In addition, he is entitled to receive options to purchase 200,000 Ordinary Shares under our ESOP plan, of which 70,000 shares of the Ordinary Shares are subject to attainment of certain clinical development, and/or business milestones over the course of the next sixteen (16) months as follows: execution and completion of first interpretable results in atopic dermatitis trial, and IND filing/acceptance. At the sole discretion of the Board of Directors, following each calendar year of employment, Mr. Jimenez shall be eligible to receive an additional cash bonus of up to twenty-five percent (25%) of his base salary, based on the attainment of certain clinical development, and/or business milestones over the course of the next sixteen (16) months.

The employment agreement includes a non-competition covenant that, during the term of his employment by us, Dr. Jimenez cannot be involved, directly or indirectly, in any competitive activity or any other activity that may pose competition to or harm us, and for a period of six months after the termination of employment with us, to be involved in or provide any consultation services to any business that competes, or that is likely to compete with our business. Also, Dr. Jimenez may not engage in any activity outside the scope of his employment without our prior approval. Dr. Jimenez is also obligated to keep confidential the confidential information of our Company. Moreover, the intellectual property and the technology that are developed during the provision of these services will be owned by us.

Board Practices

Our Articles of Association, as amended, provide that our business is to be managed by or under the direction of the board of directors. Our board of directors is divided into three classes for purposes of election. One class is elected at each annual meeting of stockholders to serve for a three-year term. Our board of directors currently consists of nine members, classified into three classes as follows: (1) Robert F. Doman, Fredric Price, Allan Shaw and Saul Yedgar constitute Class A, with a term ending at the 2014 annual general meeting; (2) Yuval Cohen, Amos Eiran and Dr. Johnson Lau constitute Class B, with a term ending at the 2015 annual general meeting; and (3) Mark Cohen and David Sidransky constitute Class C, with a term ending at the 2016 annual general meeting. Mark Cohen serves as Chairman of our board of directors. The following table presents the names of the current members of our board of directors.

The following table sets forth the terms of our directors and when they are up for re-election:

Name	Commencement of Term	Expiration of Office
Mark S. Cohen	December 21, 2004	2016 annual general meeting
Dr. Yuval Cohen Ph.D.	January 12, 2005	2014 annual general meeting
Dr. David Sidransky, M.D.	June 13, 2007	2016 annual general meeting
Dr. Johnson Yiu Nam Lau, M.B.,B.S., M.D., F.R.C.P.	May 2, 2007	2015 annual general meeting
Prof. Saul Yedgar Ph.D.	January 28, 2005	2014 annual general meeting
Amos Eiran	June 28, 2012	2015 annual general meeting
Fredric Price	June 20, 2013	2014 annual general meeting
Robert F. Doman	June 20, 2013	2014 annual general meeting
Allan Shaw	October 2, 2013	2014 annual general meeting

Audit Committee

Our Audit Committee currently consists of three members, appointed by the board of directors: Allan Shaw, Dr. Johnson Yiu-Nam Lau and Amos Eiran, all of whom are independent within the meaning of SEC corporate governance rules of independence for purposes of the Audit Committee. Mr. Shaw is the chairman of our Audit Committee.

Compensation Committee

Our Compensation Committee currently consists of three members, appointed by the board of directors: Dr. David Sidransky, Mr. Fredric Price and Robert F. Doman all of whom are independent within the meaning of SEC corporate governance rules of independence for purposes of the Compensation Committee Dr. Sidransky is the chairman of our Compensation Committee.

Nominating and Corporate Governance Committee

Our Nominating and Corporate Governance Committee currently consists of three members, appointed by our board of directors: Mark Cohen, Dr. David Sidransky and Mr. Fredric Price, all of whom are independent within the meaning of SEC corporate governance rules of independence for purposes of the Nominating and Corporate Governance Committee. Mr. Price is the chairman of our Nominating and Corporate Governance Committee.

None of our directors have any service contracts with Celsus or any of our subsidiaries that provide for benefits upon termination of employment.

Scientific Advisors

We seek advice from our scientific advisory board, which consists of a number of leading scientists and physicians, on scientific and medical matters. Our scientific advisory board assesses:

- our research and development programs;
- new technologies relevant to our research and development programs; and
- specific scientific and technical issues relevant to our business.

The current members of our scientific advisory board are:

Name	Position/Institutional Affiliation
Prof. Peter J. Barnes, M.A., D.M. D.Sc., FRCP. F.Med.Sci., FRS Imperial College, London	Peter Barnes is Prof. of Thoracic Medicine at the National Heart and Lung Institute, Head of Respiratory Medicine at Imperial College and Honorary Consultant Physician at Royal Brompton Hospital, London. He qualified at Cambridge and Oxford Universities and was appointed to his present post in 1987. He has published over 1000 peer-review papers on asthma, COPD and related topics and has written or edited over 50 books. He is also amongst the top 50 most highly cited researchers in the world and has been the most highly cited clinical scientist in Europe and the most highly cited respiratory researcher in the world over the last 20 years. He was elected a Fellow of the Royal Society in 2007, the first respiratory researcher for over 150 years. He is currently a member of the Scientific Committee of the WHO/NIH global guidelines on asthma (GINA) and COPD (GOLD). He also serves on the Editorial Board of over 30 journals and is currently an Associate Editor of Chest, European Journal of Clinical Investigation, American Journal of Respiratory and Critical Care Medicine and respiratory Editor of PLoS Medicine. He has given several prestigious lectures, including the Amberson Lecture at the American Thoracic Society, the Sadoul Lecture at the European Respiratory Society and the Croonian Lecture at the Royal College of Physicians, London. He has been received honorary MD degrees from the Universities of Ferrara (Italy), Athens (Greece), Tampere (Finland) and Leuven (Belgium).
Prof. Sir Marc Feldmann, MB BS, BSc(Med) Hons, PhD, FRCPath, FRCP, FMedSci, FAA, FRS. Head, Kennedy Institute of Rheumatology, Nuffield Department of Orthopaedics, Rheumatology and Musculoskeletal Sciences, University of Oxford	Prof. Feldmann has a medical degree and a PhD from Melbourne University. He is an expert in the fields of immunology, cytokines and autoimmune disease. He discovered the key role played by tumor necrosis factor (TNF)-alpha in the development of inflammatory autoimmune diseases, such as rheumatoid arthritis, with his colleague Prof. RavinderMaini, and they designed clinical trials for the anti-TNF antibody. For this discovery he has been elected a Fellow of the Royal Society and the Australian Academy of Science, a Foreign member of National Academy of Science, USA, and has received major international prizes, such as the Crafoord Prize of the Royal Swedish Academy (2000) and Albert Lasker Clinical Medical Research award (2003). He is a consultant to a number of major pharmaceutical and biotechnology companies.

Prof. Roderick Flower, Ph.D. , PhD, FRS Head of Biochemical Pharmacology William Harvey Research Institute, Queen Mary's College, London

Prof. Flower is recognized as one of the leading scientists in the field of inflammation in general and COX/LOX pathways specifically. He is a recognized international authority on several inflammatory diseases as well as on lipoxins. He serves as consultant to numerous pharmaceutical companies. Prof. Flower graduated in 1971 from the University of Sheffield with a first class degree in Physiology. He received his post graduate training at the department of pharmacology in the Royal College of Surgeons of England in London, where his supervisor was Sir John Vane. He moved with Sir Vane, when the latter became R&D Director at the Wellcome foundation in Beckenham in Kent and worked there as part of his prostaglandin research team until 1984. Prof. Flower left to take up the Chair of Pharmacology at the University of Bath where he also took over as Head of School of Pharmacy and Pharmacology from 1987 to 1989. In 1989, he took up a post in the medical college of St. Bartholomew's hospital, where he became a Director and Founding member of the William Harvey Research Institute, William Harvey Research Limited, and the department of Biochemical Pharmacology. He served as Head of the Institute between 1998 and 2002. Prof. Flower is a Wellcome Principal Research Fellow and much of his research is funded by grants from the Wellcome Trust. His main interests are the mechanism of action of anti-inflammatory drugs including Cox inhibitors and especially the glucocorticoid steroids.

Prof. Charles Serhan Ph.D.
Brigham and Women's Hospital Harvard Institutes of Medicine Building, Room 829
77 Avenue Louis Pasteur
Boston, MA 02115

Charles N. Serhan is the Simon Gelman Prof. of Anaesthesia (Biochemistry and Molecular Pharmacology) at Harvard Medical School and Prof. of Oral Medicine, Infection and Immunity at HSDM, Harvard University. Since 1995, he has been the Director of the Center for Experimental Therapeutics and Reperfusion Injury at Brigham and Women's Hospital in Boston. Prof. Serhan received his Bachelor's degree in biochemistry from Stony Brook University, New York, and went on to receive his doctorate in experimental pathology and medical sciences from New York University (NYU) School of Medicine. From 1981-86, he was a visiting scientist at the Karolinska Institutet and post-doctoral fellow with Prof. Bengt Samuelsson. In 1996, he received an honorary degree from Harvard University.

Dr. Serhan was awarded an NIH MERIT Award (2000), the MacArthur Research Service Award in 2003, and the Outstanding Scientist Award in Inflammation Research at BioDefense, 2004. He delivered the 2005 Kreshover Lecture at NIH and received the LSU Chancellor's Award in Neuroscience in 2006 and in 2007 the Dart/New York University Biotechnology Outstanding Achievement Award. In 2008, he delivered the Sir John Vane Memorial Lecture and received the William Harvey Outstanding Scientist Medal 2008. Prof. Serhan's research interests include the structural elucidation of novel mediators in the resolution of acute inflammation and reperfusion injury and their impact in human disease. Recent studies focus on mechanisms in the resolution of inflammation and receptors for pro-resolving mediators. His discoveries include aspirin-triggered lipid mediators, the resolvins and protectins, and most recently the maresins and their roles in programmed resolution and homeostasis.

Prof. Serhan serves on several International Organizing Committees and has been a session chair and keynote lecturer at many meetings. He is a founder and board member of the Eicosanoid Research Foundation. He is a member of several societies and editorial boards, including the ASBMB, Inflammation (Associate Editor), American Society for Pharmacology and Experimental Therapeutics, AAI, ASIP and the Journal of Experimental Medicine (Editorial Board). Since 2007 he has served on the Foundation for the NIH Biomarkers Consortium. Dr. Serhan led, as principal director, the NIH Program Project Molecular Mechanisms in Leukocyte-Mediated Tissue Injury (P01-DE13499), and recently serves as Principal Investigator/Program Director of the Center grant entitled Specialized Center for Oral Inflammation and Resolution (P50-DE016191). Prof. Serhan has authored more than 400 publications, 5 books, and over 200 US patents.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

The following discloses, since January 1, 2009, certain related party transactions involving us.

The law firm of Pearl Cohen Zedek Latzer LLP, or PCZL, represents us in intellectual property and commercial matters. Mark Cohen, the Chairman of our board of directors, is a senior partner in PCZL. PCZL charges us for services it renders on an hourly basis and expenses incurred. For the years ending December 31, 2012, 2011 and 2010, we received invoices from PCZL for services rendered and expenses incurred for approximately $365,000, $413,000 and $262,000, respectively. As of September 1, 2013, the total amount of fees due to PCZL for services rendered and expenses incurred to us since 2008, after discount, was approximately $1,052,000, consisting of $274,000 of expenses and $778,000 of fees. In 2012, we agreed with PCZL to satisfy $309,000 of the then outstanding balance owed to PCZL by our issuance on February 12, 2012, of a warrant to purchase up to 309,492 our Ordinary Shares at an exercise price of $2.00 per share, such warrant to expire on February 12, 2017, or the PCZL Warrant. Following the closing of the September 2013 Financing, we have repaid approximately $629,000. We intend to continue using the legal services of PCZL in the future. In addition, effective January 1, 2013, pursuant to a service agreement with PCZL the fee for the services was amended from $4,000 to $6,000 per month, and terminated in September 2013.

On January 18, 2005, Prof. Yedgar granted Mark Cohen a call option to purchase up to 50,700 Ordinary Shares at a purchase price of $0.016 per share and (ii) on March 12, 2007, Prof. Yedgar granted Mark Cohen a call option to purchase up to 152,000 Ordinary Shares at £0.01per share, as amended on March 1, 2011.

Gilead Raday, a member of our board of directors, is a principal of CSS Capital Managers LLP, or CSS, an affiliate of Charles Street Securities Europe LLP, or CSS Europe CSSCM, is a partnership which provides investment monitoring services to companies which CSS Europe has financed. There are seven partners actively involved in this partnership. CSS is owned by Gerard I. Mizrahi, Charles Street Securities Inc., Jonathan S. McCarthy, Andrew J. Dyer, Dr. J.M. Saffar, RH & Associates, and Gilead Raday, collectively referred to in this report as the CSS Partners. As of April 6, 2011, 339,015, or approximately 4.3% of our current beneficially owned Ordinary Shares, that were at the time owned by CSS, were distributed among Gerard I. Mizrahi, Jonathan S. McCarthy, Andrew J. Dyer, Dr. J.M. Saffar, and Gilead Raday. In December 2004, we agreed to pay Mr. Raday a retainer fee of £1,500 per quarter for financial advisory services. As of October 23, 2013, we had an outstanding liability of approximately $52,000 for such fees.

In March 2012, the members of the board of directors unconditionally waived any director's cash compensation for their service from March 2012 until the Company will raise an aggregate financing of at least $15,000,000 in private placement issuances.

From January 2012 through September 2013, we sold an aggregate of 280,025 Ordinary Shares to Mark Cohen, our Executive Chairman and beneficial owner of approximately 3.0% of our outstanding Ordinary Shares, at a price of $ 2.00 per share, for total gross proceeds of $560,050. In connection with such purchases, Mr. Cohen also received warrants to purchase an aggregate of 182,450 Ordinary Shares, at an exercise price of $ 2.00 per share.

On April 9, 2013, we sold an aggregate of 12,500 Ordinary Shares to Saul Yedgar, our Chief Scientific Officer and beneficial owner of approximately 8.1% of our outstanding Ordinary Shares at a price of $ 2.00 per share, for total gross proceeds of $25,000. In connection with such purchase, Dr. Yedgar also received warrants to purchase an aggregate of 6,250 Ordinary Shares, at an exercise price of $ 2.00 per share.

On April 30, 2013, we sold an aggregate of 50,000 Ordinary Shares to Fredric Price, our Director, at a price of $ 2.00 per share, for total gross proceeds of $100,000. In connection with such purchase, Mr. Price also received warrants to purchase an aggregate of 25,000 Ordinary Shares, at an exercise price of $ 2.00 per share.

On April 30, 2013, we sold an aggregate of 25,000 Ordinary Shares to Gur Roshwalb, our Chief Executive Officer, at a price of $2.00 per share, for total gross proceeds of $50,000. In connection with such purchase, Dr. Roshwalb also received warrants to purchase an aggregate of 12,500 Ordinary Shares, at an exercise price of $ 2.00 per share. In addition, on September 24, 2013, we sold an aggregate of 87,719 ordinary shares for a purchase price of $50,000.

PRINCIPAL SHAREHOLDERS

The following table sets forth information regarding the beneficial ownership of our outstanding Ordinary Shares as of October 23, 2013:

- each person or group of affiliated persons that, to our knowledge, beneficially owns more than 5.0% of our Ordinary Shares;
- each of our directors and executive officers individually;
- all of our directors and executive officers as a group; and
- each person known to us to own beneficially 5% or more of our Ordinary Shares.

As of October 23, 2013, Prof. Yedgar, our Chief Scientific Officer and a member of our board of directors, beneficially owned approximately 8.3% of our Ordinary Shares as determined under SEC rules. Prof. Yedgar, as our principal shareholder, does not have any different or special voting rights in comparison to any other holders of our Ordinary Shares.

Beneficial ownership generally includes voting or investment power over securities. Percentage of beneficial ownership is based on 40,227,953 of our Ordinary Shares outstanding as of October 23, 2013, which includes the Ordinary Shares issuable as a result of price protection provisions from investment agreements among us and previous investors that were triggered by the September 2013 Financing. Of this amount, approximately 6,533,705, or approximately 16.2%, of our outstanding Ordinary Shares are held by approximately 374 record holders in the United Kingdom.

Our principal shareholders do not have different or special voting rights.

Unless otherwise noted, the principal address of each of the directors and officers listed below is Celsus Therapeutics PLC, 53 Davies Street, London, United KingdomW1K 5JH.

Directors and Executive Officers	Number of Ordinary Shares Beneficially Owned [1]	Percentage of Ordinary Shares Beneficially
Mark S. Cohen	1,289,140(2)	2.8%
Dr. Johnson Yiu Nam Lau, M.B.,B.S., M.D., F.R.C.P.	123,250(3)	*
David Sidransky, M.D	250,709(4)	*
Prof. Saul Yedgar, Ph.D.	3,773,375(5)	8.1%
Yuval Cohen, Ph.D.	382,300(6)	*
Amos Eiran	15,000(7)	*
Dov Elefant	40,000(8)	*
Gur Roshwalb, M.D.	175,438(9)	*
Pablo Jimenez, M.D.	0	*
Fredric Price	175,438(10)	*
Robert F. Doman	0	*
Allan Shaw	0	*
All directors and officers as a group (12 persons)		**13.7%**

Principal Shareholders	Number of Ordinary Shares Beneficially Owned [1]	Percentage of Ordinary Shares Beneficially
Baker Bros. Advisors LP and affiliates	5,263,162(11)	13.1%
Franklin Advisors, Inc.	7,017,544(12)	17.4%
Broadfin Capital	3,508,772(13)	8.7%
Sabby Management, LLC	3,508,772(14)	8.7%

* Represents beneficial ownership of less than 1% of our outstanding Ordinary Shares.

(1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Beneficial ownership also includes Ordinary Shares subject to options and other convertible securities that are exercisable or convertible within 60 days of October 23, 2013. Except as indicated by footnote, to our knowledge, all persons named in the table above have sole voting and investment power with respect to all Ordinary Shares shown as beneficially owned.

(2) Includes options to purchase, 136,500 Ordinary Shares at an exercise price of £0.80 per share (or $1.56) which expire on August 28, 2017 and 60,000 Ordinary Shares at an exercise price of $1.56 per share, which expire on June 20, 2022, 75,000 Ordinary Shares at an exercise price of $1.56 per share, which expire on March 19, 2022, warrants to purchase 182,450 Ordinary Shares at an exercise price of $2.00 per share and two call options to purchase from Prof. Yedgar (i) up to 50,700 Ordinary Shares at a purchase price of $0.016 per share, and (ii) up to 152,000 Ordinary Shares at £0.01 per share, as amended on March 1, 2011, which expire on January 18, 2015 and March 12, 2017, respectively. This figure does not take into account a warrant issued to Pearl Cohen Zedek Latzer Law Office, or PCZL, on February 12, 2012, to purchase 309,492 ordinary Shares at an exercise price of $2.00 per share; Mark Cohen is a senior partner in PCZL. His business address is Pearl Cohen Zedek Latzer, LLP, 1500 Broadway, 12th Floor, New York, NY 10036, United States of America.

(3) Consists of options to purchase 68,250 Ordinary Shares at an exercise price of £0.80 per share (or $1.61), which expire on August 28, 2017, 30,000 Ordinary Shares at an exercise price of $1.56 per share, which expire on June 20, 2022 and 25,000 Ordinary Shares at an exercise price of $1.56 per share, which expire on March 19, 2022. Dr. Johnson's business address is c/o Kinex Pharmaceuticals, 701 Ellicott Street, Buffalo, New York 14203.

(4) Includes options to purchase 183,477 Ordinary Shares as follows: 128,477 Ordinary Shares at an exercise price of £0.80 per share (or between $1.56 and $1.61), 68,250 Ordinary Shares which expire on August 28, 2017, and 60,227 Ordinary Shares which expire on February 5, 2018. In addition, includes options to purchase 30,000 Ordinary Shares at an exercise price of $1.56 per share which expire on June 20, 2022, 25,000 Ordinary Shares at an exercise price of $1.56 per share, which expire on March 19, 2022 and warrants to purchase 12,500 Ordinary Shares at an exercise price of $2.00 per share which expire February 12, 2017. Dr. Sidransky's business address is 17 Pinsker Street, Rehovot, Israel 7630825.

(5) Includes the purchase of shares as described in footnote (2) above, warrants to purchase 6,250 Ordinary Shares at an exercise price of $2.00 per share and the deduction of 101,400 Ordinary Shares purchased by the Yedgar Family Trust on January 24, 2012 by exercising a warrant granted by Prof. Yedgar. Prof. Yedgar's business address is c/o Department of Biochemistry, Hebrew University-Hadassah Medical School, Jerusalem, Israel 91120.

(6) Includes options to purchase 27,300 Ordinary Shares at an exercise price of £0.80 per share (or $1.61), which expire on August 28, 2017, 30,000 Ordinary Shares at an exercise price of $1.56 per share, which expire on June 20, 2022 and 25,000 Ordinary Shares at an exercise price of $1.56 per share, which expire on March 19, 2022. Dr. Cohen's business address is 53 Davies Street, Mayfair, London W1K 5JH, the United Kingdom.

(7) Includes options to purchase 15,000 Ordinary Shares at an exercise price of $2.00 which expire on June 28, 2022. Mr. Eiran's business address is 2 Avner Street, Herzlia, Israel 4670402.

(8) Includes options to purchase 40,000 Ordinary Shares at an exercise price of $1.56 which expire on January 11, 2022.

(9) Dr. Roshwalb was hired as Chief Executive Officer on March 5, 2013.

(10) Mr. Price was appointed to the Board of Directors on June 20, 2013.

(11) The number of shares beneficially owned before the offering includes 4,557,332 Ordinary Shares directly owned by Baker Brothers Life Sciences, L.P. ("Life Sciences"), a limited partnership the sole general partner of which is Baker Brothers Life Sciences Capital, L.P., a limited partnership the sole general partner of which is Baker Brothers Life Sciences Capital (GP), LLC, 591,452 Ordinary Shares directly owned by 667, L.P. (accounts #1 and #2) ("667"), a limited partnership the sole general partner of which is Baker Biotech Capital, L.P., a limited partnership the sole general partner of which is Baker Biotech Capital (GP), LLC, and 114,378 Ordinary Shares directly owned by 14159, L.P. ("14159" and together with Life Sciences, 667 and 14159, the "Baker Entities"), a limited partnership the sole general partner of which is 14159 Capital, L.P., a limited partnership the sole general partner of which is 14159 Capital (GP). Julian C. Baker and Felix J. Baker are the controlling members of the general partners of the general partners of the Baker Entities. Baker Bros. Advisors LP and affiliates (the "Adviser") serves as the Investment Adviser to each of the Baker Entities. Pursuant to amended and restated management agreements between the Adviser, each of the Baker Entities and the general partners of the Baker Entities, the Adviser has complete and unlimited discretion and authority with respect to the Baker Entities investments and voting power over investments. Julian C. Baker and Felix J. Baker are the principals of the Adviser and each may be deemed to control the Adviser and to indirectly beneficially own the shares beneficially owned by it. Julian C. Baker and Felix J. Baker disclaim beneficial ownership of the securities directly owned by the Baker Entities, and this disclosure shall not be deemed to be an admission that Julian C. Baker and/or Felix J. Baker are the beneficial owners of such securities for purposes of Section 13(d) or any other purpose. The address for Baker Bros. Advisors LP and affiliates and its affiliates is 667 Madison Avenue, 21st Floor, New York, NY 10065.

(12) Franklin Advisors, Inc. ("FAV"), an indirectly wholly owned subsidiary of a public traded company, Franklin Resources, Inc. ("FRI"), is the beneficial owner of these securities for purposes of Rule 13d-3 under the Exchange Act in its capacity as the investment adviser to Franklin Strategic Series - Franklin Biotechnology Discovery Fund and Franklin Templeton Investment Funds - Franklin Biotechnology Discovery Fund. When an investment management contract (including a sub-advisory agreement) delegates to FAV investment discretion or voting power over the securities held in the investment advisory accounts that are subject to that agreement, FRI treats FAV as having sole investment discretion or voting authority, as the case may be, unless the agreement specifies otherwise. Accordingly, FAV reports for purposes of Section 13(d) of the Exchange Act that it has sole investment discretion and voting authority over the securities covered by any such investment management agreement, unless otherwise specifically noted. The address for FAV is One Franklin Parkway, Building 920, San Mateo, CA 94403.

(13) Broadfin Capital, LLC serves as investment adviser to Broadfin Healthcare Master Fund, LTD with the power to direct investments and/or sole power to vote the shares owned by Broadfin Healthcare Master Fund, LTD. Kevin Kotler, a natural person, is the Managing Member of Broadfin Capital, LLC. Mr. Kotler has voting and dispositive power over the shares held by Broadfin Healthcare Master Fund, LTD. Mr. Kotler disclaims beneficial ownership of all shares beneficially owned, except to the extent of his pecuniary interests in such shares. The address for Broadfin Capital, LLC is 237 Park Avenue, Suite 900, New York, NY 10017.

(14) Sabby Healthcare Volatility Master Fund, Ltd. has indicated that Hal Mintz has voting and investment power over the shares held by it.The Sabby Healthcare Volatility Master Fund, Ltd. has also indicated that Sabby Management, LLC serves as its investment manager, that Hal Mintz is the manager of Sabby Management, LLC and that each of Sabby Management, LLC and Hal Mintz disclaim beneficial ownership over these shares except to the extent of any pecuniary interest therein. The address for Sabby Management, LLC is 10 Mountainview Road, Suite 205, Upper Saddle River, New Jersey, 07458.

DESCRIPTION OF SHARE CAPITAL

Issued capital

As of October 23, 2013, we had 40,227,553 Ordinary Shares outstanding, and no Deferred A shares (on June 14, 2007, we bought back the 400,000 Deferred A Shares held by CSS, for £400 (or $789); we had 633,333 issued Deferred B shares and 400,000 issued Deferred C shares that expired in 2011, and in June 2012, respectively, yet held by CSS.

As of December 31, 2012, we had 13,369,809 Ordinary Shares outstanding, and no Deferred A shares (on June 14, 2007, we bought back the 400,000 Deferred A Shares held by CSS, for £400 (or $789); we had 633,333 issued Deferred B shares and 400,000 issued Deferred C shares that expired in 2011, and in June 2012, respectively, yet held by CSS.

As of December 31, 2011, we had 12,098,597 Ordinary Shares outstanding, and no Deferred A shares (on June 14, 2007, we bought back the 400,000 Deferred A Shares held by CSS, for £400 (or $789); we had 633,333 issued Deferred B shares that expired in 2011, yet held by CSS and 400,000 Deferred C shares that expired in June 2012, and as of November 30, 2012, still held by CSS.

As of December 31, 2011 and December 31, 2012, there were options issued for the purchase of up to 411,002 and 823,990 of our Ordinary Shares, respectively, pursuant to the terms of our ESOP.

As of December 31, 2012, there are 320,775 options to purchase Ordinary Shares, at an exercise price of £0.80 per share (or $1.25); 60,227 options to purchase Ordinary Shares, at an exercise price of £0.79 per share (or $1.23); 425,000 options to purchase Ordinary Shares, at an exercise price of $1.56 per share; 2,988 options to purchase Ordinary Shares, at an exercise price of $1.75 per share; and 15,000 options to purchase Ordinary Shares, at an exercise price of $2.00 per share.

For more information on the grantees and vesting dates, see "Management—Compensation —Employee Stock Option Plan."

As of October 23, 2013, there were issued and outstanding: warrants to purchase up to 98,231 Ordinary Shares at an exercise price of $2.00 per share, which warrants expire on January 16, 2017; warrants to purchase up to 76,000 Ordinary Shares at an exercise price of $2.00 per share, which warrants expire on February 12, 2017; a warrant to purchase up to 309,492 Ordinary Shares at an exercise price of $2.00 per share, which warrants expire on February 12, 2017; warrants to purchase up to 67,500 Ordinary Shares at an exercise price of $2.00 per share, which warrants expire on March 19, 2017; and warrants to purchase up to 670,732 Ordinary Shares at an exercise price of $1.64 per share, which warrants expire on April 3, 2017; and warrants to purchase up to 92,500 Ordinary Shares at an exercise price of $2.00 per share, which warrants expire on April 26, 2017; and warrants to purchase up to 10,000 Ordinary Shares at an exercise price of $2.00 per share, which warrants expire on May 22, 2017; and warrants to purchase up to 5,000 Ordinary Shares at an exercise price of $2.25 per share, which warrants expire on June 20, 2017; and warrants to purchase up to 7,500 Ordinary Shares at an exercise price of $2.00 per share, which warrants expire on August 3, 2017; and warrants to purchase up to 232,558 Ordinary Shares at an exercise price of $1.72 per share, which warrant expires on August 29, 2017; and warrants to purchase up to 10,000 Ordinary Shares at an exercise price of $2.00 per share, which warrants expire on August 29, 2017; warrants to purchase up to 8,375 Ordinary Shares at an exercise price of $2.00 per share, which warrants expire on September 28, 2017; warrants to purchase up to 465,930 Ordinary Shares at an exercise price of $2.00 per share, which warrants expire November 30, 2017; warrants to purchase up to 33,750 Ordinary Shares at an exercise price of $2.00 per share, which warrants expire January 17, 2018; Series A warrants to purchase up to 245,785 Ordinary Shares at an exercise price of $2.00 per share, which warrants expire January 17, 2018, Series B warrants to purchase up to 375,000 Ordinary Shares at an exercise price of $2.00 per share, which warrants expire the earlier of (i) the one-year anniversary such warrants are registered, or (ii) 18 months and Series C warrants to purchase up to 187,500 Ordinary Shares at an exercise price of $2.00 per share, which warrants expire January 17, 2018; Series A warrants to purchase up to 45,950 Ordinary Shares at an exercise price of $2.00 per share, which warrants expire January 31, 2018; Series A warrants to purchase up to 16,500 Ordinary Shares at an exercise price of $2.00 per share, which warrants expire February 28, 2018; Series A warrants to purchase up to 18,600 Ordinary Shares at an exercise price of $2.00 per share, which warrants expire February 28, 2018; Series A warrants to purchase up to 12,500 Ordinary Shares at an exercise price of $2.00 per share, which warrants expire March 20, 2018, Series A warrants to purchase up to 16,250 Ordinary Shares at an exercise price of $2.00 per share, which warrants expire on April 9, 2018, Series A warrants to purchase up to 58,500 Ordinary Shares at an exercise price of $2.00 per share, which warrants expire on April 29, 2018, Series A warrants to purchase up to 10,000 Ordinary Shares at an exercise price of $2.00 per share, which warrants expire on May 13, 2018, Series A warrants to purchase up to 17,075 Ordinary Shares at an exercise price of $2.00 per share, which warrants expire on September 10, 2018 and Series A warrants to purchase up to 5,500 Ordinary Shares at an exercise price of $2.00 per share, which warrants expire on September 17, 2018. Effective with the September 2013 Financing and the election by certain investors of their most favored nation terms, 81,250 warrants issued in 2013 were cancelled.

As of December 31, 2011 and December 31, 2012, there were convertible notes in the principal amount of $0 and $1.1 million, respectively, which notes were convertible into 643,274 of our Ordinary Shares at a conversion price of $1.71 per share, which notes matured on January 4, 2013. On August 29, 2012, we entered into a subscription agreement with Europa International Inc. pursuant to which we sold 232,558 Ordinary Shares and five-year warrants to purchase 232,558 Ordinary Shares at an exercise price of $1.72 per share for an aggregate purchase price of $400,000. As a result of such transaction, the exercise price of the Warrants issued in the April 2012 Financing was reduced to $1.64 per share in accordance with the anti-dilution provisions contained in the April 2012 Financing agreements. On January 2, 2013 we repaid in full the convertible notes. Further, on September 24, 2013, we issued 21,958,302 Ordinary shares at a price of $0.57 per share. As a result of such transaction, the exercise price of the Warrants issued in the April 2012 Financing was reduced to $0.57 per share in accordance with the anti-dilution provisions contained in the April 2012 Financing agreements.

On June 13, 2007, in the Annual General Meeting, it was resolved that the directors are authorized to issue equity securities after the shareholders waived their pre-emption rights on the issue of new shares. Such power shall expire on the fifth anniversary of the date of passing this resolution, namely June 13, 2012.

On June 28, 2012, in the Annual General Meeting, it was resolved that the directors are authorized to issue equity securities after the shareholders waived their pre-emption rights on the issue of new shares. Such power shall expire on the fifth anniversary of the date of passing this resolution, namely June 28, 2017.

On June 14, 2007, the Company bought back from Prof. Saul Yedgar 1,070,000 Ordinary Shares, for a consideration of approximately in total £1.00 (approximately $1.00).

Shares not representing capital

None.

Shares held by the Company

We are not permitted under English law to hold our own Ordinary Shares.

History of share capital

The following table sets forth the history of our share capital as of the end of each of our last three fiscal years:

	December 31, 2010	*December 31, 2011*	*December 31, 2012*
Ordinary shares	11,561,571(1)	12,098,597(2)	13,369,809(3)
Deferred A shares	0	0	0(4)
Deferred B shares	633,333	0	0(5)
Deferred C shares	400,000	400,000	0(6)
Options (7)	411,002	411,002	823,990

(1) During 2010, we issued 200,778 Ordinary Shares at a price of $1.43-$1.57 per share.
(2) During 2011, we issued 522,026 Ordinary Shares at a price of $1.63-$1.95 per share. Pursuant to the Option Agreement dated February 3, 2005, between Morria and Yissum, Yissum exercised its option to purchase 15,000 Ordinary Shares at an exercise price of £0.01 per share.
(3) During 2012, we issued 1,271,212, units of Ordinary Shares and warrants at a price per unit of $1.72-$2.25 per share.
(4) The deferred A shares were bought back by Morria on June 14, 2007.
(5) The deferred B shares expired on May 13, 2011.
(6) The deferred C shares expired on June 13, 2012.
(7) All of the August 28, 2007 options have an exercise price of £0.80 per share (or $1.56 per share), the options granted to Dr. Sidransky on February 5, 2008 have an exercise price of £0.79 per share (or $1.56 per share) and the options granted to Dr. Bondi on May 27, 2009 have an exercise price of $1.56 per share.

Since January 1, 2012, we have issued the following securities, none of which involved a change in voting rights attached to the securities at issue (for more information, see "—Rights Attached to our Shares" below):

- On January 16, 2012, we issued 98,231 Ordinary Shares at a price of $2.00 per share and warrants to purchase up to 79,000 Ordinary Shares at an exercise price of $2.00 per share, which warrants expire on January 16, 2017;

- On February 12, 2012, we issued 86,000 Ordinary Shares at a price of $2.00 per share and warrants to purchase up to 76,000 Ordinary Shares at an exercise price of $2.00 per share, which warrants expire on February 12, 2017.

- On February 12, 2012, we issued PCZL a warrant to purchase 309,492 Ordinary Shares at an exercise price of $2.00 per share, which warrant expires on February 12, 2017. This warrant was issued to PCZL in satisfaction of certain legal fees owed by the Company.

- On March 19, 2012, we issued 12,500 Ordinary Shares at a share price of $2.00 per share and warrants to purchase up to 67,500 Ordinary Shares at an exercise price of $2.00 per share, which warrants expire on March 19, 2017.

- On April 4, 2012, we issued an aggregate of $1.1 million in original issue discount senior secured convertible notes and warrants to purchase up to an aggregate of 643,274 Ordinary Shares at an exercise price of $1.71 (subsequently adjusted to $1.64), which warrants expire on April 4, 2017. On and after April 4, 2013, if a registration statement registering the Ordinary Shares underlying the warrants is not effective, the holders of the warrants may exercise their warrants on a cashless basis. On January 2, 2013 we repaid in full the convertible notes.

- On April 26, 2012, we issued 47,500 Ordinary Shares at a price of $2.00 per share and granted warrants to purchase up to 92,500 Ordinary Shares at an exercise price of $2.00 per share, which warrants expire on April 26, 2017 and we granted, pursuant to the ESOP, options to purchase up to 395,000 Ordinary Shares at an exercise price of $1.56 per share.

- On May 22, 2012, we issued 10,000 Ordinary Shares at a price of $2.00 per share and granted warrants to purchase up to 10,000 Ordinary Shares at an exercise price of $2.00 per share, which warrants expire on May 22, 2017.

- On June 27, 2012, we issued 10,000 Ordinary Shares at a price of $2.25 per share and issued warrants to purchase up to 5,000 Ordinary Shares at an exercise price of $2.25 per share, which warrants expire on June 27, 2017 and options to purchase up to 2,988 Ordinary Shares at an exercise price of $1.75 per share.

- On June 28, 2012, we granted, pursuant to the ESOP, options to purchase up to 15,000 Ordinary Shares at an exercise price of $2.00 per share.

- On August 3, 2012, we issued 7,500 Ordinary Shares at a price of $2.00 per share and granted warrants to purchase up to 7,500 Ordinary Shares at an exercise price of $2.00 per share, which warrants expire on August 3, 2017.

- As of June 14, 2012, all outstanding deferred shares have expired.

- On August 29, 2012, we entered into a subscription agreement with Europa International Inc. pursuant to which we sold 232,558 Ordinary Shares and five-year warrants to purchase 232,558 Ordinary Shares at an exercise price of $1.72 per share for an aggregate purchase price of $400,000. As a result of such transaction, the conversion price and exercise price of the Notes and Warrants issued in the April 2012 Financing should be reduced to $1.64 per share in accordance with calculation performed by us pursuant to the anti-dilution provisions contained in the April 2012 financing agreements.

- On August 29, 2012, we issued 10,000 Ordinary Shares at a price of $2.00 per share and issued warrants to purchase up to 10,000 Ordinary Shares at an exercise price of $2.00 per share, which warrants expire on August 29, 2017.

- On September 28, 2012, we issued 8,375 Ordinary Shares at a price of $2.00 per share and issued warrants to purchase up to 8,375 Ordinary Shares at an exercise price of $2.00 per share, which warrants expire on September 28, 2017. In addition, we issued 16,279 Ordinary Shares for financial advisory services to a consultant in relation with our financing in August 2012.

- On November 30, 2012, we issued an aggregate of 751,500 units, each unit consisting of one Ordinary Share and one warrant to purchase one half of one share, at a price per unit of $2.00 for gross proceeds of $1,503,000. The warrants are to purchase up to an aggregate of 375,750 Ordinary Shares at an exercise price of $2.00, which warrants expire on November 30, 2017. On and after November 30, 2013, if a registration statement registering the Ordinary Shares underlying the warrants is not effective, the holders of the warrants may exercise their warrants on a cashless basis.

- On January 17, 2013, we issued 473,000 of our Ordinary Shares at a price of $2.00 per share, and we issued warrants to purchase 799,000 Ordinary Shares at an exercise price of $2.00 per share for total proceeds of approximately $946,000. In addition, we issued a warrant to purchase 43,035 Ordinary Shares to Garden State Securities as part of the compensation related to the 2013 Financing. On and after January 17, 2014, if a registration statement registering the Ordinary Shares underlying the warrants is not effective, the holders of the warrants may exercise their warrants on a cashless basis.

- On January 31, 2013, we issued an aggregate of 77,500 units, each unit consisting of one Ordinary Share and one warrant to purchase one half of one share, at a price per unit of $2.00 for gross proceeds of $155,000. The warrants are to purchase up to an aggregate of 30,000 Ordinary Shares at an exercise price of $2.00, which warrants expire on January 31, 2018. In addition, we issued a warrant to purchase 7,200 Ordinary Shares to Garden State Securities as part of the compensation related to the 2013 Financing. On and after January 31, 2013, if a registration statement registering the Ordinary Shares underlying the warrants is not effective, the holders of the warrants may exercise their warrants on a cashless basis. Furthermore, if Garden State Securities raises an aggregate of at least $3,500,000 for the Company, the agreement that was signed with the agent on November 30, 2012 shall be amended such that the warrants granted to them in relation to the November Financing, will be eligible to a down-round anti-dilution protection.

- On February 28, 2013, we issued 63,000 of our Ordinary Shares at a price of $2.00 per share, and we issued warrants to purchase 31,500 Ordinary Shares at an exercise price of $2.00 per share for total proceeds of approximately $126,000. In addition, we issued a warrant to purchase 3,600 Ordinary Shares to Garden State Securities as part of the compensation related to the 2013 Financing. On and after February 28, 2014, if a registration statement registering the Ordinary Shares underlying the warrants is not effective, the holders of the warrants may exercise their warrants on a cashless basis.

- On March 20, 2013, we issued 25,000 of our Ordinary Shares at a price of $2.00 per share, and we issued warrants to purchase 12,500 Ordinary Shares at an exercise price of $2.00 per share for total proceeds of approximately $50,000. On and after March 20, 2014, if a registration statement registering the Ordinary Shares underlying the warrants is not effective, the holders of the warrants may exercise their warrants on a cashless basis.

  On April 9, 2013, we issued 32,500 of our Ordinary Shares at a price of $2.00 per share, and we issued warrants to purchase 16,250 Ordinary Shares at an exercise price of $2.00 per share for total proceeds of approximately $65,000. On and after April 9, 2014, if a registration statement registering the Ordinary Shares underlying the warrants is not effective, the holders of the warrants may exercise their warrants on a cashless basis.

  On April 29, 2013, we issued 117,000 of our Ordinary Shares at a price of $2.00 per share, and we issued warrants to purchase 58, 500 Ordinary Shares at an exercise price of $2.00 per share for total proceeds of approximately $234,000. On and after April 29, 2014, if a registration statement registering the Ordinary Shares underlying the warrants is not effective, the holders of the warrants may exercise their warrants on a cashless basis.

  On May 13, 2013, we issued 20,000 of our Ordinary Shares at a price of $2.00 per share, and we issued warrants to purchase 10,000 Ordinary Shares at an exercise price of $2.00 per share for total proceeds of approximately $40,000. On and after May 13, 2014, if a registration statement registering the Ordinary Shares underlying the warrants is not effective, the holders of the warrants may exercise their warrants on a cashless basis.

  On September 10, 2013, we issued 34,150 of our Ordinary Shares at a price of $2.00 per share, and we issued warrants to purchase 17,075 Ordinary Shares at an exercise price of $2.00 per share for total proceeds of approximately $68,300. On and after September 10, 2014, if a registration statement registering the Ordinary Shares underlying the warrants is not effective, the holders of the warrants may exercise their warrants on a cashless basis.

  On September 17, 2013, we issued 11,000 of our Ordinary Shares at a price of $2.00 per share, and we issued warrants to purchase 5, 500 Ordinary Shares at an exercise price of $2.00 per share for total proceeds of approximately $22,000. On and after September 17, 2014, if a registration statement registering the Ordinary Shares underlying the warrants is not effective, the holders of the warrants may exercise their warrants on a cashless basis.

  On September 19, 2013, we issued 21,958,302 Ordinary shares at a price of $0.57 per share for total proceeds of approximately $12,516,232. As a result of price protection provisions from investment agreements with previous investors, (i) an aggregate of 4,046,692 additional ordinary shares are being issued to previous investors in connection with this issuance and (ii) there will be an additional 1,259,092 ordinary shares issuable upon exercise of outstanding warrants.

Memorandum and Articles of Association

Objects and Purposes

We were incorporated in England and Wales as a private limited company on October 7, 2004 under the name "Freshname No. 333 Limited," registered number 5252842. On January 19, 2005, we changed our name to "Morria Biopharmaceuticals Ltd." and subsequently re-registered as a public limited company, under the name "Morria Biopharmaceuticals PLC." on February 15, 2005. The objective stated in Section 3 of our Articles is to carry on business as a general commercial company.

Fiduciary Duties of Office Holders

An "office holder" is defined in the Companies Act of 2006, as amended, or the Companies Act, as a director, managing director, chief executive officer, executive vice president, vice president, or any other person fulfilling or assuming any of the foregoing positions, without regard to such person's title and any other manager directly subordinate to the managing director.

The Companies Act imposes a duty of care and a duty of loyalty on all office holders of a company. The duty of care requires an office holder to act with the standard of skills with 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 regarding the business advisability of a given action brought for his or her approval or performed by him or her by virtue of his or her position; and
- all other information of importance pertaining to the aforesaid 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 act involving a conflict of interest between the fulfillment of his or her role in the company and the fulfillment of any other role or his or her personal affairs;
- refrain from any activity that is competitive with the business of the company;
- refrain from exploiting any business opportunity of the company with the aim of obtaining a personal gain for himself or herself or others; and
- disclose to the company all information and provide it with all documents relating to the company's affairs which the office holder has obtained due to his position in the company.

Under equity, directors have owed fiduciary duties to their companies. Chapter 2 of Part 10 of the Companies Act 2006 (2006 Act) codifies certain of those duties. The relevant statutory duties under the 2006 Act are:

- to act within powers;
- to promote the success of the company;
- to exercise independent judgment;
- to avoid conflicts of interest;
- not to accept benefits from third parties; and
- to declare an interest in a proposed transaction or arrangement.

In addition, the general principles of Fiduciary Duties as set out in common law continue in place in respect of Directors. The general four principles of Fiduciary Duties are:

a) **No conflict:** A must not place himself in a position where his own interests conflict with those of B or where there is a real possibility that this will happen. This is also known as conflict of duty or conflict of interest.

b) **No-profit:** A must not profit from his position at the expense of B. This is also known as misuse of property held in a fiduciary capacity.

c) **Undivided loyalty:** A fiduciary owes undivided loyalty to his beneficiary. Rather confusingly, this is sometimes called conflict of duty. A must not place himself in a position where his duty to another customer conflicts with his duty to B.

A consequence of the duty of undivided loyalty is that a fiduciary must make available to a customer all the information that is relevant to the customer's affairs.

d) **Confidentiality:** A must use or disclose information obtained in confidence from B for the benefit only of B.

In the corporate realm, these have been refined as follows:

- **Duty to act in good faith in the best interests of the company:** A director had to act at all times in good faith in what he considered was the best interests of the company.

- **Duty to act within the powers conferred by the company's memorandum and articles of association and to exercise powers for proper purposes:** A director could not cause the company to undertake activities outside that permitted by the company's constitutional documents, or exercise his powers for any "improper purpose".

- **Duty not to fetter own discretion:** A director was not permitted to restrict himself from exercising independent judgment on the company's behalf. For example, a director could not agree with a third person (such as his appointing shareholder) to vote at board meetings in any particular way, even if voting in that way would not otherwise have breached his duties to the company, unless permitted to do so under the company's constitution.

- **Duty to avoid conflicting interests and duties:** A director was obliged to avoid placing himself in a position where there was a conflict, or possible conflict, between the duties which he owed to the company and either his personal interests or other duties which he owed to a third party.

- **Duty not to make unauthorised profits:** A director was under a duty to account for any personal profit made by virtue of his directorship unless the prof it was authorised by shareholder resolution or was in accordance with the company's articles. The duty to account was strict, and did not depend on fraud or lack of good faith, or on the company suffering any loss.

Standard of Care

A director had to take such actions as would be taken by "a reasonably diligent person," having both:

· the general knowledge, skill and experience that may reasonably be expected of a person carrying out the same functions as are carried out by that director in relation to the company.

· the general knowledge, skill and experience that that director has.

Disclosure of Personal Interests of an Officer Holder

The Companies Act requires that an office holder disclose to the Company any personal interest that he or she may have, and all related material information and documents known to him or her, in connection with any existing or proposed transaction by the company. The disclosure is required to be made promptly and in any event, no later than the board of directors meeting in which the transaction is first discussed. "Personal interest" is defined by the Companies Act as a personal interest of a person in an act or transaction of the company, including a personal interest of his relative or of a corporate body in which that person or a relative of that person is a holder of 20% or more of that corporate outstanding shares or voting rights, is a director or general manager, or in which he or she has the right to appoint at least one director or the general manager. "Personal interest" does not apply to a personal interest stemming merely from the fact that the office holder is also a shareholder in the company. The term "personal interest" also includes the personal interest of a person voting under a proxy given by another person, even if such appointing person has no personal interest in the proposed act or transaction. The vote of a person voting under a proxy given by a person having a personal interest in the proposed act or transaction, even if the person voting under the proxy has no personal interest, shall be deemed as a vote made by a person having a personal interest in the proposed act or transaction. In relation to the relatives of a director under the Companies Act, this includes the spouse or civil partner, children living with the director who are under 18 and the director's parents.

Section 177 of the Companies Act requires any transaction in which a director has an interest to be declared, and not only those that are extraordinary transactions.

Except as provided in our New Articles of Association, as adopted by special resolution passed on June 28, 2012, or our Articles, a director may not vote at a meeting of the board or of a committee of the board on any resolution concerning a matter:

- in which he has (either alone or together with any person connected with him, as provided in the Companies Act) a material interest, other than an interest in shares or debentures or other securities of or in the company; and
- subject to the Companies Act, which conflicts or may conflict with the interests of Celsus.

A director is not counted in the quorum at a meeting in relation to any resolution on which he is debarred from voting.

Notwithstanding the foregoing, a director is entitled to vote and be counted in the quorum in respect of any resolution concerning any of the following matters:

- the giving of any security, guarantee or indemnity to him in respect of money lent or obligations incurred by him or by any other person at the request of or for the benefit of Celsus or any of our subsidiaries;
- the giving of any security, guarantee or indemnity to a third party in respect of a debt or obligation of Celsus or any of our subsidiaries for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
- any proposal concerning an offer of shares or debentures or other securities of or by Celsus or any of our subsidiaries for subscription or purchase in which offer he is or is to be interested as a participant as the holder of such shares, debentures or other securities or in its underwriting or sub-underwriting;
- any contract, arrangement, transaction or other proposal concerning any other company in which he holds an interest not representing one per cent. or more of any class of the equity share capital (calculated exclusive of any shares of that class held as treasury shares) of such company, or of any third company through which his interest is derived, or of the voting rights available to members of the relevant company, any such interest being deemed for the purpose of this regulation to be a material interest in all circumstances;
- any contract, arrangement, transaction or other proposal concerning the adoption, modification or operation of a superannuation fund or retirement, death or disability benefits scheme under which he may benefit and which has been approved by or is subject to and conditional upon approval by Her Majesty's Revenue & Customs;
- any contract, arrangement, transaction or proposal concerning the adoption, modification or operation of any scheme for enabling employees, including full time executive directors of Celsus or any of our subsidiaries to acquire shares of Celsus or any arrangement for the benefit of employees of Celsus or any of our subsidiaries, which does not award him any privilege or benefit not awarded to the employees to whom such scheme relates; or

- any contract, arrangement, transaction or proposal concerning insurance which Celsus proposes to maintain or purchase for the benefit of directors or for the benefit of persons including directors.

Regulation 29 of the Articles states, that the board may authorise any matter which may otherwise involve a director breaching his duties under certain sections of the Companies Act 2006 to avoid conflicts of interest.

Any director (including the director which has the conflict) may propose that such conflicted director be authorised in relation to any matter which is the subject of such a conflict. The director with the conflict will not count towards the quorum at the meeting at which the conflict is considered and may not vote on any resolution authorising the conflict. Where the board gives authority in relation to such a conflicts, the board may impose such terms on the relevant director as it deems appropriate.

Directors' and Officers' Compensation

The Companies Act requires that a resolution approving provisions to appoint a director for a period of more than two years, must not be passed unless a memorandum setting out the proposed contract incorporating the provision is made available to members: in the case of a resolution at a meeting, by being made available for inspection by members of the company both (i) at the company's registered office for not less than 15 days ending with the date of the meeting, and (ii) at the meeting itself.

Since David Sidransky and Mark Cohen were appointed on the Annual General meeting that convened on June 28, 2012, for a period of 3 years; the memorandum setting out the proposed contract incorporating such provision, was made available to members within the required period. Termination payments for loss of office to directors cannot be made without shareholder approval.

Directors' Borrowing Powers

Our board of directors may, from time to time, in its discretion, cause us to borrow or secure the payment of any sum or sums of money for the purposes of our company.

Retirement of Directors

We do not have any age limitations for our directors, nor do we have mandatory retirement as a result of reaching a certain age.

Share Qualification of Directors

No shareholding qualification is required by a director.

Rights Attached to our Shares

Except as noted herein, the rights attaching to our Ordinary Shares and our deferred shares are the same. Until conversion of the deferred shares in accordance with the terms of our Articles, the deferred shares have no rights attaching to them whatsoever (other than the right of conversion). At any time before the fifth anniversary of the date of their issuance, at the option of the holders of the deferred shares, the deferred shares may be converted into Ordinary Shares. To effect the conversion, holders of the deferred shares must pay the difference between par value of each deferred share and either £0.25 in the case of a deferred A share, £0.60 in respect of a deferred B share, and £0.80 in respect of a deferred C share.

Dividend Rights. Our Articles provide that our board of directors may, subject to the applicable provisions of the Companies Act, from time to time, declare such dividend as may appear to the board of directors to be justified by the profits of the company. Subject to the rights of the holders of shares with preferential or other special rights that may be authorized in the future, holders of Ordinary Shares are entitled to receive dividends according to their rights and interest in our profits. Dividends, to the extent declared, are distributed according to the proportion of the nominal value paid up on account of the shares held at the date so appointed by the Company, without regard to the premium paid in excess of the nominal value, if any. Under the Companies Act, a company may distribute a dividend only if the distribution does not create a reasonable concern that the company will be unable to meet its existing and anticipated obligations as they become due. A company may only distribute a dividend out of the company's profits, as defined under the Companies Act. If the company does not meet the profit requirement, a court may allow it to distribute a dividend, as long as the court is convinced that there is no reasonable concern that such distribution might prevent the company from being able to meet its existing and anticipated obligations as they become due.

Voting Rights. Holders of Ordinary Shares have one vote for each Ordinary Share held on all matters submitted to a vote of shareholders. These voting rights may be affected by the grant of any special voting rights to the holders of a class of shares with preferential rights that may be authorized in the future.

The Ordinary Shares do not have cumulative voting rights in the election of directors. As a result, holders of Ordinary Shares that represent more than 50% of the voting power at the general meeting of shareholders, in person or by proxy, have the power to elect all the directors whose positions are being filled at that meeting to the exclusion of the remaining shareholders. At every annual general meeting, one third of the directors who are subject to retirement by rotation, or as near to it as may be, will retire from office. In any two year period, a majority of the directors must stand for re-election or replacement. In the event that this majority has not been met and the number of directors eligible for retirement by rotation under the provision of our Articles are not met, any further directors to retire are those who have been in office the longest since their last appointment or re-appointment, but as between persons who became or were last re-appointed directors on the same day, those to retire are determined by the Board of Directors at the recommendation of the Chairman. A retiring director is eligible for re-appointment, subject to the terms of our Articles.

The actions necessary to change the rights of holders of the Ordinary Shares are as follows: the rights of the shareholders would need to be altered by way of an extraordinary resolution requiring 75% vote of the shareholders who are present and voting in person or by proxy. In order to change the rights of a separate class of shares, it will require such a vote by shareholders of that class of shares.

Liquidation Rights. In the event of our liquidation, subject to applicable law, after satisfaction of liabilities to creditors, our assets will be distributed to the holders of Ordinary Shares in proportion to their respective holdings. This liquidation right may be affected by the grant of preferential dividends or distribution rights to the holders of a class of shares with preferential rights that may be authorized in the future.

Redemption Provisions. We may, subject to applicable law and to our Articles, issue redeemable preference shares and redeem the same.

Capital Calls. Under our Articles and the Companies Act, the liability of our shareholders is limited to the nominal (par) value of the shares held by them.

Transfer of Shares. Fully paid Ordinary Shares are issued in registered form and may be transferred pursuant to our Articles, unless such transfer is restricted or prohibited by another instrument and subject to applicable securities laws.

Preemptive Rights. Our shareholders have preemptive rights with respect to new issuances of equity securities. We plan to convene a shareholders' meeting prior to the effectiveness of this Form F-1 to obtain a waiver of such rights for a period of five years.

The articles state that the directors of the Company may refuse to authorise a transfer of shares if the shares in question have not been paid in full and are therefore only partly paid.

Modification of Rights

Subject to the provisions of the Companies Act, if at any time our capital is divided into different classes of shares, the rights attached to any class may be varied or abrogated with the consent in writing of the holders of at least three-fourths in nominal value of that class or with the sanction of a special resolution passed at a separate meeting of the holders of that class, but not otherwise. The quorum at any such meeting is two or more persons holding, or representing by proxy, at least one-third in nominal value of the issued shares in question.

Transfer Restrictions

Upon the listing of our shares on a Regulated Market (as defined by the Financial Services and Markets Act 2000, the AIM market of the London Stock Exchange, the New York Stock Exchange, the NYSE Amex, NASDAQ and similar securities exchanges), the Board may decide that up to 100% of each shareholders' free shares (i.e. unrestricted shares under the applicable rules and regulations) shall be restricted to sale or transfer according to the following provisions, such shares as restricted by the Board being Restricted Shares: (i) during the first six months commencing on the date of the listing, no transfer of Restricted Shares is permitted; (ii)as of the seventh and eighth month following the date of the listing, such a shareholder may transfer shares that constitute up to 12.5% of his Restricted Shares per month; and (iii) as of the ninth month following the date of the listing, the remaining Restricted Shares are no longer considered restricted.

Shareholders' Meetings and Resolutions

Pursuant to our Articles, the quorum required for an ordinary meeting of shareholders consists of at least two shareholders present in person or by proxy, who hold shares conferring in the aggregate more than 15% of our voting power. If at any time the Company has only one shareholder, such shareholder, in person, by proxy or, if a corporation, by its representative, shall constitute a quorum. A meeting adjourned for lack of a quorum generally is adjourned to the same day in the following week at the same time and place or any time and place as the chairman of the board may designate. Furthermore, the board of the company may call a general meeting whenever they think fit. If the Board, in its absolute discretion, considers that it is impractical or unreasonable for any reason to hold a general meeting on the date or at the time or place specified in the notice calling the general meeting, it may postpone the general meeting to another date, time and/or place.

Under the Companies Act, each shareholder of record must be provided at least 14 calendar days prior to the notice of any general shareholders' meeting and 21 days prior to the notice of an annual general meeting. Subject to the provisions of the Companies Act, our annual general meeting will be held at such time and place or places as our board may determine. Our board may call a general meeting whenever it thinks fit, and must do so when required under the Companies Act. General meetings must also be convened on such requisition, or in default may be convened by such requisitionists or by court order, as provided by the Companies Act.

Limitation on Owning Securities

Our Articles do not restrict in any way the ownership or voting of Ordinary Shares by non-residents. Furthermore, there is no longer an obligation of a shareholder of a UK company which is a non-listed (in the UK or EU) company to voluntarily disclose his shareholding unless, required to do so by the company. If the company serves a demand on a person under section 793 to the Companies Act 2006, that person will be required to disclose any interest he has in the shares of the company.

Change in Control

We can issue additional shares with any rights or restrictions attached to them as long as not restricted by any rights attached to existing shares. These rights or restrictions can be decided by the directors so long as there is no conflict with any resolution passed by the shareholders. The ability of the directors to issue shares with rights or restrictions that are different than those attached to the currently outstanding Ordinary Shares could have the effect of delaying, deferring or preventing change of control of our company.

In addition, as discussed above under "- A. Directors and Senior Management", our board of directors is divided into three classes for purposes of election. One class is elected at each annual meeting of stockholders to serve for a three-year term. Because this would prevent shareholders from replacing the entire board at a single meeting, this provision could also have the effect of delaying, deferring or preventing a change in control of our company.

We may in the future be subject to the UK Takeover Code which is not binding on our company at the present time. Nevertheless, the UK Takeover Code could apply to our company under certain circumstances in the future and if that were to occur, each shareholder who is to acquire more than 29.9% of our issued and outstanding shares could, in most circumstances, be required to make an offer for all the shares in our company under the terms of the UK Takeover Code.

Drag Along

If any shareholder or shareholders holding in aggregate 75% or more of the issued Ordinary Shares wish to transfer such shares in a transaction or series of related transactions to a third party, such selling shareholders may require all remaining shareholders to offer the Ordinary Shares held by them to the proposed buyer.

Our Articles do not have conditions governing changes in our capital which are more stringent than those required by law.

DESCRIPTION OF AMERICAN DEPOSITARY SHARES

Deutsche Bank Trust Company Americas, as depositary, will register and deliver the ADSs. Each ADS will represent ownership of two Ordinary Shares deposited with State Street Bank & Trust Company, having its principal office at 525 Ferry Road, Crewe Toll, Edinburgh, EH5 2AW Scotland, as custodian for the depositary. Each ADS will also represent ownership of any other securities, cash or other property which may be held by the depositary. The depositary's corporate trust office at which the ADSs will be administered is located at 60 Wall Street, New York, NY 10005, USA. The principal executive office of the depositary is located at 60 Wall Street, New York, NY 10005, USA.

The Direct Registration System, or DRS, is a system administered by The Depository Trust Company, or DTC, pursuant to which the depositary may register the ownership of uncertificated ADSs, which ownership shall be evidenced by periodic statements issued by the depositary to the ADS holders entitled thereto.

We will not treat ADS holders as our shareholders and accordingly, you, as an ADS holder, will not have shareholder rights. English law governs shareholder rights. The depositary will be the holder of the Ordinary Shares underlying your ADSs. As a holder of ADSs, you will have ADS holder rights. A deposit agreement among us, the depositary and you, as an ADS holder, and the beneficial owners of ADSs sets out ADS holder rights as well as the rights and obligations of the depositary. The laws of the State of New York govern the deposit agreement and the ADSs.

The following is a summary of the material provisions of the deposit agreement. For more complete information, you should read the entire deposit agreement and the form of American Depositary Receipt.

Holding the ADSs

How will you hold your ADSs?

You may hold ADSs either (1) directly (a) by having an American Depositary Receipt, or ADR, which is a certificate evidencing a specific number of ADSs, registered in your name, or (b) by holding ADSs in the DRS, or (2) indirectly through your broker or other financial institution. If you hold ADSs directly, you are an ADS holder. This description assumes you hold your ADSs directly. If you hold the ADSs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of ADS holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

Dividends and Other Distributions

How will you receive dividends and other distributions on the shares?

The depositary has agreed to pay to you the cash dividends or other distributions it or the custodian receives on Ordinary Shares or other deposited securities, after deducting its fees and expenses. You will receive these distributions in proportion to the number of Ordinary Shares your ADSs represent as of the record date (which will be as close as practicable to the record date for our Ordinary Shares) set by the depositary with respect to the ADSs.

- **Cash.** The depositary will convert any cash dividend or other cash distribution we pay on the Ordinary Shares or any net proceeds from the sale of any Ordinary Shares, rights, securities or other entitlements into U.S. dollars if it can do so on a reasonable basis, and can transfer the U.S. dollars to the United States. If that is not possible or lawful or if any government approval is needed and cannot be obtained, the deposit agreement allows the depositary to distribute the foreign currency only to those ADS holders to whom it is possible to do so. It will hold the foreign currency it cannot convert for the account of the ADS holders who have not been paid. It will not invest the foreign currency and it will not be liable for any interest.

- Before making a distribution, any taxes or other governmental charges, together with fees and expenses of the depositary, that must be paid, will be deducted. See "Taxation." It will distribute only whole U.S. dollars and cents and will round fractional cents to the nearest whole cent. *If the exchange rates fluctuate during a time when the depositary cannot convert the foreign currency, you may lose some or all of the value of the distribution.*

- ***Shares.*** The depositary may distribute additional ADSs representing any Ordinary Shares we distribute as a dividend or free distribution to the extent reasonably practicable and permissible under law. The depositary will only distribute whole ADSs. It will try to sell Ordinary Shares which would require it to deliver a fractional ADS and distribute the net proceeds in the same way as it does with cash. If the depositary does not distribute additional ADSs, the outstanding ADSs will also represent the new Ordinary Shares. The depositary may sell a portion of the distributed Ordinary Shares sufficient to pay its fees and expenses in connection with that distribution.

- ***Elective Distributions in Cash or Shares.*** If we offer holders of our Ordinary Shares the option to receive dividends in either cash or shares, the depositary, after consultation with us and having received timely notice as described in the deposit agreement of such elective distribution by us, has discretion to determine to what extent such elective distribution will be made available to you as a holder of the ADSs. We must first instruct the depositary to make such elective distribution available to you and furnish it with satisfactory evidence that it is legal to do so. The depositary could decide it is not legal or reasonably practical to make such elective distribution available to you, or it could decide that it is only legal or reasonably practical to make such elective distribution available to some but not all holders of the ADSs. In such case, the depositary shall, on the basis of the same determination as is made in respect of the Ordinary Shares for which no election is made, distribute either cash in the same way as it does in a cash distribution, or additional ADSs representing Ordinary Shares in the same way as it does in a share distribution. The depositary is not obligated to make available to you a method to receive the elective dividend in shares rather than in ADSs. There can be no assurance that you will be given the opportunity to receive elective distributions on the same terms and conditions as the holders of Ordinary Shares.

- ***Rights to Purchase Additional Shares.*** If we offer holders of our Ordinary Shares any rights to subscribe for additional shares or any other rights, the depositary may after consultation with us and having received timely notice as described in the deposit agreement of such distribution by us, make these rights available to you. We must first instruct the depositary to make such rights available to you and furnish the depositary with satisfactory evidence that it is legal to do so. If the depositary decides it is not legal and practical to make the rights available but that it is practical to sell the rights, the depositary will use reasonable efforts to sell the rights and distribute the net proceeds in the same way as it does with cash. The depositary will allow rights that are not distributed or sold to lapse. In that case, you will receive no value for them. If the depositary makes rights available to you, it will exercise the rights and purchase the shares on your behalf. The depositary will then deposit the shares and deliver ADSs to you. It will only exercise rights if you pay it the exercise price and any other charges the rights require you to pay. U.S. securities laws may restrict transfers and cancellation of the ADSs represented by shares purchased upon exercise of rights. For example, you may not be able to trade these ADSs freely in the United States. In this case, the depositary may deliver restricted depositary shares that have the same terms as the ADSs described in this section except for changes needed to put the necessary restrictions in place.

- ***Other Distributions.*** Subject to receipt of timely notice from us with the request to make any such distribution available to you, and provided the depositary has determined such distribution is lawful and reasonably practicable and feasible and in accordance with the terms of the deposit agreement, the depositary will send to you anything else we distribute on deposited securities by any means it thinks is legal, fair and practical. If it cannot make the distribution in that way, the depositary has a choice: it may decide to sell what we distributed and distribute the net proceeds in the same way as it does with cash; or, it may decide to hold what we distributed, in which case ADSs will also represent the newly distributed property. However, the depositary is not required to distribute any securities (other than ADSs) to you unless it receives satisfactory evidence from us that it is legal to make that distribution. The depositary may sell a portion of the distributed securities or property sufficient to pay its fees and expenses in connection with that distribution.

- The depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADS holders. We have no obligation to register ADSs, shares, rights or other securities under the Securities Act. We also have no obligation to take any other action to permit the distribution of ADSs, shares, rights or anything else to ADS holders. This means that you may not receive the distributions we make on our shares or any value for them if it is illegal or impractical for us to make them available to you.

Deposit, Withdrawal and Cancellation

How are ADSs issued?

The depositary will deliver ADSs if you or your broker deposit Ordinary Shares or evidence of rights to receive Ordinary Shares with the custodian. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will register the appropriate number of ADSs in the names you request and will deliver the ADSs to or upon the order of the person or persons entitled thereto.

How do ADS holders cancel an American Depositary Share?

You may turn in your ADSs at the depositary's corporate trust office or by providing appropriate instructions to your broker. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will deliver the Ordinary Shares and any other deposited securities underlying the ADSs to you or a person you designate at the office of the custodian. Or, at your request, risk and expense, the depositary will deliver the deposited securities at its corporate trust office, if feasible.

The depositary may refuse to accept for surrender ADSs only in the case of (i) temporary delays caused by closing our transfer books or those of the depositary or the deposit of our Ordinary Shares in connection with voting at a shareholders' meeting or the payment of dividends, (ii) the payment of fees, taxes and similar charges and (iii) compliance with any laws or governmental regulations relating to depositary receipts or to the withdrawal of deposited securities. Subject thereto, in the case of surrender of a number of ADSs representing other than a whole number of our Ordinary Shares, the depositary will cause ownership of the appropriate whole number of our Ordinary Shares to be delivered in accordance with the terms of the deposit agreement and will, at the discretion of the depositary, either (i) issue and deliver to the person surrendering such ADSs a new ADS representing any remaining fractional Ordinary Share or (ii) sell or cause to be sold the fractional Ordinary Shares represented by the ADSs surrendered and remit the proceeds of such sale (net of applicable fees and charges of, and expenses incurred by, the depositary and taxes and/or governmental charges) to the person surrendering the ADS.

How do ADS holders interchange between Certificated ADSs and Uncertificated ADSs?

You may surrender your ADR to the depositary for the purpose of exchanging your ADR for uncertificated ADSs. The depositary will cancel that ADR and will send you a statement confirming that you are the owner of uncertificated ADSs. Alternatively, upon receipt by the depositary of a proper instruction from a holder of uncertificated ADSs requesting the exchange of uncertificated ADSs for certificated ADSs, the depositary will execute and deliver to you an ADR evidencing those ADSs.

Voting Rights

How do you vote?

You may instruct the depositary to vote the deposited securities. Otherwise, you could exercise your right to vote directly if you withdraw the Ordinary Shares your ADSs represent. However, you may not know about the meeting enough in advance to withdraw the Ordinary Shares.

If we ask for your instructions and upon timely notice from us as described in the deposit agreement, the depositary will notify you of the upcoming vote and arrange to deliver our voting materials to you. The materials will (1) describe the matters to be voted on and (2) explain how you may instruct the depositary to vote the Ordinary Shares or other deposited securities underlying your ADSs as you direct, including an express indication that such instruction may be given or deemed given in accordance with the second to last sentence of this paragraph if no instruction is received, to the depositary to give a discretionary proxy to a person designated by us. Voting instructions may be given only by mail and in respect of a number of ADSs representing an integral number of our Ordinary Shares or other deposited securities. For instructions to be valid, the depositary must receive them on or before the date specified. The depositary will try, as far as practical, subject to the laws of the United Kingdom and the provisions of our constitutive documents, to vote or to have its agents vote the Ordinary Shares or other deposited securities as you instruct. The depositary will only vote or attempt to vote as you instruct. If we timely requested the depositary to solicit your instructions but no instructions are received by the depositary from an owner with respect to any of the deposited securities represented by the ADSs of that owner on or before the date established by the depositary for such purpose, the depositary shall deem that owner to have instructed the depositary to give a discretionary proxy to a person designated by us with respect to such deposited securities, and the depositary shall give a discretionary proxy to a person designated by us to vote such deposited securities. However, no such instruction shall be deemed given and no such discretionary proxy shall be given with respect to any matter if we inform the depositary we do not wish such proxy given, substantial opposition exists or the matter materially and adversely affects the rights of holders of the Ordinary Shares.

We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote the Ordinary Shares underlying your ADSs. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions . *This means that you may not be able to exercise your right to vote and you may have no recourse if the Ordinary Shares underlying your ADSs are not voted as you requested.*

In order to give you a reasonable opportunity to instruct the depositary as to the exercise of voting rights relating to deposited securities, if we request the depositary to act, we are required to give the depositary 30 days' advance notice of any such meeting and details concerning the matters to be voted upon sufficiently in advance of the meeting date, and the depositary will mail you a notice.

Fees and Charges

As a holder of American Depository Shares, or ADSs, you will be required to pay the following service fees to the depositary bank:

Service:	Fee:
Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property	Up to $0.05 per ADS issued
Cancellation of ADSs, including in the case of termination of the deposit agreement	Up to $0.05 per ADS cancelled
Distribution of cash dividends or other cash distributions	Up to $0.05 per ADS held
Distribution of ADSs pursuant to share dividends, free share distributions or exercise of rights	Up to $0.05 per ADS held
Distribution of securities other than ADSs or rights to purchase ADSs additional ADSs	A fee equivalent to the fee that would be payable if securities distributed to you had been Ordinary Shares and the Ordinary Shares had been deposited for issuance of ADSs
Depositary services	Up to $0.05 per ADS held on the applicable record date(s) established by the depositary bank
Transfer of ADRs	$1.50 per certificate presented for transfer

As an ADS holder, you will also be responsible to pay certain fees and expenses incurred by the depositary bank and certain taxes and governmental charges such as:

- Fees for the transfer and registration of Ordinary Shares charged by the registrar and transfer agent for the Ordinary Shares in the United Kingdom (i.e., upon deposit and withdrawal of Ordinary Shares).
- Expenses incurred for converting foreign currency into U.S. dollars.
- Expenses for cable, telex and fax transmissions and for delivery of securities.
- Taxes and duties upon the transfer of securities, including any applicable stamp duties, any stock transfer charges or withholding taxes (i.e., when Ordinary Shares are deposited or withdrawn from deposit).
- Fees and expenses incurred in connection with the delivery or servicing of Ordinary Shares on deposit.
- Fees and expenses incurred in connection with complying with exchange control regulations and any other regulatory requirements that are not currently applicable but may arise or become applicable to Ordinary Shares, deposited securities, ADSs and ADRs.
- Any applicable fees and penalties thereon.

The depositary fees payable upon the issuance and cancellation of ADSs are typically paid to the depositary bank by the brokers (on behalf of their clients) receiving the newly issued ADSs from the depositary bank and by the brokers (on behalf of their clients) delivering the ADSs to the depositary bank for cancellation. The brokers in turn charge these fees to their clients. Depositary fees payable in connection with distributions of cash or securities to ADS holders and the depositary services fee are charged by the depositary bank to the holders of record of ADSs as of the applicable ADS record date.

The depositary fees payable for cash distributions are generally deducted from the cash being distributed or by selling a portion of distributable property to pay the fees. In the case of distributions other than cash (i.e., share dividends, rights, etc.), the depositary bank charges the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or uncertificated in direct registration), the depositary bank sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts (via DTC), the depositary bank generally collects its fees through the systems provided by DTC (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients' ADSs in DTC accounts in turn charge their clients' accounts the amount of the fees paid to the depositary banks.

In the event of refusal to pay the depositary fees, the depositary bank may, under the terms of the deposit agreement, refuse the requested service until payment is received or may set off the amount of the depositary fees from any distribution to be made to the ADS holder.

The depositary has agreed to reimburse us for a portion of certain expenses we incur that are related to establishment and maintenance of the American Depository Receipt, or ADR, program, including investor relations expenses. There are limits on the amount of expenses for which the depositary will reimburse us, but the amount of reimbursement available to us is not related to the amounts of fees the depositary collects from investors. Further, the depositary has agreed to reimburse us certain fees payable to the depositary by holders of ADSs. Neither the depositary nor we can determine the exact amount to be made available to us because (i) the number of ADSs that will be issued and outstanding, (ii) the level of service fees to be charged to holders of ADSs and (iii) our reimbursable expenses related to the program are not known at this time.

Payment of Taxes

You will be responsible for any taxes or other governmental charges payable on your ADSs or on the deposited securities represented by any of your ADSs. The depositary may refuse to register any transfer of your ADSs or allow you to withdraw the deposited securities represented by your ADSs until such taxes or other charges are paid. It may apply payments owed to you or sell deposited securities represented by your ADSs to pay any taxes owed and you will remain liable for any deficiency. If the depositary sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to you any net proceeds, or send to you any property, remaining after it has paid the taxes. You agree to indemnify us, the depositary, the custodian and each of our and their respective agents, directors, employees and affiliates for, and hold each of them harmless from, any claims with respect to taxes (including applicable interest and penalties thereon) arising from any tax benefit obtained for you.

Reclassifications, Recapitalizations and Mergers

If we:	**Then:**
Change the nominal or par value of our Ordinary Shares	The cash, shares or other securities received by the depositary will become deposited securities.
Reclassify, split up or consolidate any of the deposited securities	Each ADS will automatically represent its equal share of the new deposited securities.
Distribute securities on the Ordinary Shares that are not distributed to you or Recapitalize, reorganize, merge, liquidate, sell all or substantially all of our assets, or take any similar action	The depositary may distribute some or all of the cash, shares or other securities it received. It may also deliver new ADSs or ask you to surrender your outstanding ADRs in exchange for new ADRs identifying the new deposited securities.

Amendment and Termination

How may the deposit agreement be amended?

We may agree with the depositary to amend the deposit agreement and the form of ADR without your consent for any reason. If an amendment adds or increases fees or charges, except for taxes and other governmental charges or expenses of the depositary for registration fees, facsimile costs, delivery charges or similar items, including expenses incurred in connection with foreign exchange control regulations and other charges specifically payable by ADS holders under the deposit agreement, or materially prejudices a substantial existing right of ADS holders, it will not become effective for outstanding ADSs until 30 days after the depositary notifies ADS holders of the amendment. At the time an amendment becomes effective, you are considered, by continuing to hold your ADSs, to agree to the amendment and to be bound by the ADRs and the deposit agreement as amended.

How may the deposit agreement be terminated?

The depositary will terminate the deposit agreement if we ask it to do so, in which case the depositary will give notice to you at least 90 days prior to termination. The depositary may also terminate the deposit agreement if the depositary has told us that it would like to resign and we have not appointed a new depositary within 90 days. In such case, the depositary must notify you at least 30 days before termination.

After termination, the depositary and its agents will do the following under the deposit agreement but nothing else: collect distributions on the deposited securities, sell rights and other property and deliver Ordinary Shares and other deposited securities upon cancellation of ADSs after payment of any fees, charges, taxes or other governmental charges. Six months or more after termination, the depositary may sell any remaining deposited securities by public or private sale. After that, the depositary will hold the money it received on the sale, as well as any other cash it is holding under the deposit agreement, for the pro rata benefit of the ADS holders that have not surrendered their ADSs. It will not invest the money and has no liability for interest. The depositary's only obligations will be to account for the money and other cash. After termination, our only obligations will be to indemnify the depositary and to pay fees and expenses of the depositary that we agreed to pay.

Books of Depositary

The depositary will maintain ADS holder records at its depositary office. You may inspect such records at such office during regular business hours but solely for the purpose of communicating with other holders in the interest of business matters relating to the ADSs and the deposit agreement.

The depositary will maintain facilities in New York to record and process the issuance, cancellation, combination, split-up and transfer of ADRs.

These facilities may be closed from time to time, to the extent not prohibited by law or if any such action is deemed necessary or advisable by the depositary or us, in good faith, at any time or from time to time because of any requirement of law, any government or governmental body or commission or any securities exchange on which the ADRs or ADSs are listed, or under any provision of the deposit agreement or provisions of, or governing, the deposited securities, or any meeting of our shareholders or for any other reason.

Limitations on Obligations and Liability

Limits on our Obligations and the Obligations of the Depositary; Limits on Liability to Holders of ADSs

The deposit agreement expressly limits our obligations and the obligations of the depositary. It also limits our liability and the liability of the depositary. We and the depositary:

- are only obligated to take the actions specifically set forth in the deposit agreement without gross negligence or willful misconduct;
- are not liable if either of us is prevented or delayed by law or circumstances beyond our control from performing our obligations under the deposit agreement, including, without limitation, requirements of any present or future law, regulation, governmental or regulatory authority or share exchange of any applicable jurisdiction, any present or future provisions of our memorandum and articles of association, on account of possible civil or criminal penalties or restraint, any provisions of or governing the deposited securities or any act of God, war or other circumstances beyond our control as set forth in the deposit agreement;
- are not liable if either of us exercises, or fails to exercise, discretion permitted under the deposit agreement;
- are not liable for the inability of any holder of ADSs to benefit from any distribution on deposited securities that is not made available to holders of ADSs under the terms of the deposit agreement;
- have no obligation to become involved in a lawsuit or other proceeding related to the ADSs or the deposit agreement on your behalf or on behalf of any other party;
- may rely upon any documents we believe in good faith to be genuine and to have been signed or presented by the proper party;
- disclaim any liability for any action/inaction in reliance on the advice or information of legal counsel, accountants, any person presenting Ordinary Shares for deposit, holders and beneficial owners (or authorized representatives) of ADSs, or any person believed in good faith to be competent to give such advice or information;
- disclaim any liability for inability of any holder to benefit from any distribution, offering, right or other benefit made available to holders of deposited securities but not made available to holders of ADSs; and
- disclaim any liability for any indirect, special, punitive or consequential damages.

The depositary and any of its agents also disclaim any liability for any failure to carry out any instructions to vote, the manner in which any vote is cast or the effect of any vote or failure to determine that any distribution or action may be lawful or reasonably practicable or for allowing any rights to lapse in accordance with the provisions of the deposit agreement, the failure or timeliness of any notice from us, the content of any information submitted to it by us for distribution to you or for any inaccuracy of any translation thereof, any investment risk associated with the acquisition of an interest in the deposited securities, the validity or worth of the deposited securities, the credit-worthiness of any third party, or for any tax consequences that may result from ownership of ADSs, Ordinary Shares or deposited securities.

In the deposit agreement, we and the depositary agree to indemnify each other under certain circumstances.

Requirements for Depositary Actions

Before the depositary will issue, deliver or register a transfer of an ADS, make a distribution on an ADS, or permit withdrawal of Ordinary Shares, the depositary may require:

- payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any Ordinary Shares or other deposited securities and payment of the applicable fees, expenses and charges of the depositary;
- satisfactory proof of the identity and genuineness of any signature or other information it deems necessary; and
- compliance with regulations it may establish, from time to time, consistent with the deposit agreement, including presentation of transfer documents.

The depositary may refuse to issue and deliver ADSs or register transfers of ADSs generally when the register of the depositary or our transfer books are closed or at any time if the depositary or we think it is necessary or advisable to do so.

Your Right to Receive the Shares Underlying Your ADSs

You have the right to cancel your ADSs and withdraw the underlying Ordinary Shares at any time except:

- when temporary delays arise because: (1) the depositary has closed its transfer books or we have closed our transfer books; (2) the transfer of Ordinary Shares is blocked to permit voting at a shareholders' meeting; or (3) we are paying a dividend on our Ordinary Shares;
- when you owe money to pay fees, taxes and similar charges; or
- when it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to ADSs or to the withdrawal of Ordinary Shares or other deposited securities.

This right of withdrawal may not be limited by any other provision of the deposit agreement.

Pre-release of ADSs

The deposit agreement permits the depositary to deliver ADSs before deposit of the underlying Ordinary Shares. This is called a pre-release of the ADSs. The depositary may also deliver Ordinary Shares upon cancellation of pre-released ADSs (even if the ADSs are cancelled before the pre-release transaction has been closed out). A pre-release is closed out as soon as the underlying Ordinary Shares are delivered to the depositary. The depositary may receive ADSs instead of Ordinary Shares to close out a pre-release. The depositary may pre-release ADSs only under the following conditions: (1) before or at the time of the pre-release, the person to whom the pre-release is being made represents to the depositary in writing that it or its customer (a) owns the Ordinary Shares or ADSs to be deposited, (b) assigns all beneficial rights, title and interest in such Ordinary Shares or ADSs to the depositary for the benefit of the owners, (c) will not take any action with respect to such Ordinary Shares or ADSs that is inconsistent with the transfer of beneficial ownership, (d) indicates the depositary as owner of such Ordinary Shares or ADSs in its records, and (e) unconditionally guarantees to deliver such Ordinary Shares or ADSs to the depositary or the custodian, as the case may be; (2) the pre-release is fully collateralized with cash or other collateral that the depositary considers appropriate; and (3) the depositary must be able to close out the pre-release on not more than five business days' notice. Each pre-release is subject to further indemnities and credit regulations as the depositary considers appropriate. In addition, the depositary will normally limit the number of ADSs that may be outstanding at any time as a result of pre-release to 30% of the aggregate number of ADSs then outstanding, although the depositary, in its sole discretion, may disregard the limit from time to time, if it thinks it is appropriate to do so, including (1) due to a decrease in the aggregate number of ADSs outstanding that causes existing pre-release transactions to temporarily exceed the limit stated above or (2) where otherwise required by market conditions. The depositary may also set limits with respect to the number of ADSs and Shares involved in pre-release transactions with any one person on a case-by-case basis as it deems appropriate.

Direct Registration System

In the deposit agreement, all parties to the deposit agreement acknowledge that the DRS and Profile Modification System, or Profile, will apply to uncertificated ADSs upon acceptance thereof to DRS by DTC. DRS is the system administered by DTC pursuant to which the depositary may register the ownership of uncertificated ADSs, which ownership shall be evidenced by periodic statements issued by the depositary to the ADS holders entitled thereto. Profile is a required feature of DRS which allows a DTC participant, claiming to act on behalf of an ADS holder, to direct the depositary to register a transfer of those ADSs to DTC or its nominee and to deliver those ADSs to the DTC account of that DTC participant without receipt by the depositary of prior authorization from the ADS holder to register such transfer.

In connection with and in accordance with the arrangements and procedures relating to DRS/Profile, the parties to the deposit agreement understand that the depositary will not verify, determine or otherwise ascertain that the DTC participant which is claiming to be acting on behalf of an ADS holder in requesting registration of transfer and delivery described in the paragraph above has the actual authority to act on behalf of the ADS holder (notwithstanding any requirements under the Uniform Commercial Code). In the deposit agreement, the parties agree that the depositary's reliance on, and compliance with, instructions received by the depositary through the DRS/Profile System and in accordance with the deposit agreement, shall not constitute negligence or bad faith on the part of the depositary.

PRIVATE PLACEMENT FINANCING

September 2013 Financing

On September 19, 2013, we entered into a Securities Purchase Agreement with certain institutional accredited investors, pursuant to which we agreed to sell, in a private placement, an aggregate of 21,958,302 Ordinary Shares for an aggregate purchase price of $12,516,232. The closing of the Offering occurred on September 24, 2013 and our placement agents received an aggregate of approximately $$613,000 from us.

As a result of price protection provisions from investment agreements with previous investors, (i) an aggregate of 4,046,692 additional Ordinary Shares are being issued to previous investors in connection with the Offering and (ii) there will be an additional 1,259,092 Ordinary Shares issuable upon exercise of outstanding warrants. All of such shares are being registered for resale hereby.

We also entered into a registration rights agreement with the investors pursuant to which we agreed to file a registration statement to register the resale of the Ordinary Shares issued in the private placement no later than the 30th day after the Closing Date. We agreed to cause the registration statement to be declared effective within 60 calendar days after the Closing Date, or within 120 calendar days after the Closing Date in the event the Registration Statement is reviewed by the SEC (the "Effective Date"). To the extent the registration statement is not filed by the filing deadline or declared effective by the agreed upon effectiveness deadline, we agreed to pay to each investor holding registrable securities an amount in cash equal to one and one half percent (1.5%) of such investor's original investment amount on the date of such failure and on every 30-day anniversary of such failure until such failure has been cured, pro rated for periods totaling less than 30 days. In the event we fail to make such payments in a timely manner, such payments will bear interest at the rate of 1.0% per month (prorated for partial months) until paid in full.

SELLING SHAREHOLDERS

The Ordinary Shares represented by ADSs that may be offered for sale by the Selling Shareholders pursuant to this prospectus represent (i) 21,958,302 Ordinary Shares sold by the registrant to certain accredited investors in a private placement consummated in September 2013, (b) 4,046,692 Ordinary Shares to be issued by the registrant as a result of price protection provisions from investment agreements among the Company and previous investors that were triggered by the September 2013 Financing, and (c) an additional 1,259,092 Ordinary Shares issuable upon exercise of outstanding warrants as a result of anti-dilution adjustments in such warrants. See "Private Placement Financing" for a description of the transaction documents relating to these financings. We are registering the Ordinary Shares represented by ADSs in order to permit the Selling Shareholders to offer the ADSs for resale from time to time. Except for the ownership of the securities described above, the Selling Shareholders have not had any material relationship with us within the past three years except that (i) Alpha Capital Anstalt was a holder of our convertible notes that was repaid in January 2013 and held 337,500 Ordinary Shares and warrants to purchase 1,010,366 Ordinary Shares, (ii) Mark Cohen is our Chairman, (iii) Gur Roshwalb is our Chief Executive Officer, (iv) Fredric Price is a member of our board of directors and (v) Saul Yedgar is our Chief Scientific Officer, a member of our board of directors and a beneficial owner of approximately 8.3% of our outstanding Ordinary Shares.

The table below lists the Selling Shareholders and other information regarding the beneficial ownership (as determined under Section 13(d) of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder) of the Ordinary Shares held by each of the Selling Shareholders. The second column lists the number of Ordinary Shares beneficially owned by the Selling Shareholders, based on their respective ownership of Ordinary Shares, as of October 23, 2013, assuming exercise of the Warrants held by each such Selling Shareholders on that date, but taking account of any limitations on exercise set forth therein.

Percentage of beneficial ownership is based on 40,227,953 of our Ordinary Shares outstanding as of October 23, 2013, which includes the Ordinary Shares issuable as a result of price protection provisions from investment agreements among us and previous investors that were triggered by the September 2013 Financing.

Name of Selling Shareholder	Number of Ordinary Shares Beneficially Owned Prior to Offering	Percentage of Outstanding Ordinary Shares Beneficially Owned Before this Offering	Maximum Number of Ordinary Shares to be Sold Pursuant to this Prospectus (a)	Number of Ordinary Shares Beneficially Owned After this Offering	Percentage of Outstanding Ordinary Shares Beneficially Owned After this Offering
Baker Bros. Advisors LP and affiliates (1)	4,557,332	11.3%	4,557,332	0	*
667, L.P. (account #1) (1)	352,589	*	352,589	0	*
667, L.P. (account #2) (1)	238,863	*	238,863	0	*
14159, L.P. (1)	114,378	*	114,378	0	*
Franklin Templeton Investment Funds - Franklin Biotechnology Discovery Fund (2)	4,119,370	10.2%	4,119,370	0	*
Franklin Strategic Series - Franklin Biotechnology Discovery Fund (2)	2,898,174	7.2%	2,898,174	0	*
Broadfin Healthcare Master Fund, LTD (3)	3,508,772	8.7%	3,508,772	0	*
Sabby Healthcare Volatility Master Fund, Ltd. (4)	3,508,772	8.7%	3,508,772	0	*
DAFNA LifeScience Select LTD (5)	268,000	*	268,000	0	*
DAFNA LifeScience LTD (5)	140,300	*	140,300	0	*
DAFNA LifeScience Market Neutral LTD (5)	30,700	*	30,700	0	*
Capital Ventures International (6)	800,000	2.0%	800,000	0	*
Franklin M. Berger	701,754	1.7%	701,754	0	*
Alpha Capital Anstalt (7)	1,990,526(8)	4.9%	1,887,572	1,347,866	3.2%
Osher Capital Partners LLC (9)	321,578(10)	*	209,078	112,500	*
Revach Fund LP (12)	105,263	*	105,263	0	*
Iroquois Master Fund Ltd. (13)	964,912(14)	2.3%	629,546	335,366	*
Steve Antico	30,065(15)	*	18,815	11,250	*
Kimberly & Jeffrey Brehm	50,109(16)	*	31,359	18,750	*
Bob Bridges	50,109(17)	*	31,359	18,750	*
Rupert Casey	200,438(18)	*	125,438	75,000	*
Mario Dell'Aera	801,754(19)	2.0%	501,754	300,000	*
Gregory L Storm Rev. Trust	200,438(20)	*	125,438	75,000	*
Brian Katz	50,109(21)	*	31,359	18,750	*
Frank Koza	50,109(22)	*	31,359	18,750	*
Alistair Eric Maccallum Laband	200,438(23)	*	125,438	75,000	*
Mick McLoughlin	400,877(24)	1.0%	250,877	150,000	*
Robert McPherson	200,438(25)	*	125,438	75,000	*
Ulrich Otto	150,238(26)	*	94,078	56,250	*
Jim Sheffield	100,219(27)	*	62,719	37,500	*
Martin Scherer	100,219(28)	*	62,719	37,500	*
Duncan Scott	50,109(29)	*	31,359	18,750	*
Hideo Takada	400,877(30)	1.0%	250,877	150,000	*
David A. Ufheil	100,219(31)	*	62,719	37,500	*
Igor Gordon	48,105(32)	*	30,105	18,000	*
Adam Bricker	40,087(33)	*	25,087	15,000	*
Michael Cadwell	50,109(34)	*	31,359	18,750	*
Timothy Shear TTEE, Timothy Shear Dec Trust dtd 1/4/94	50,109(35)	*	31,359	18,750	*
Glenn Skutt and Lesley Howard	50,109(36)	*	31,359	18,750	*
Steve Almassy	50,109(37)	*	31,359	18,750	*
Richard Fogle	40,087(38)	*	25,087	15,000	*
Steven Friedman	10,021(39)	*	6,271	3,750	*
John Schincariol	20,043(40)	*	12,543	7,500	*
Meyer H. Abittan	175,438(41)	*	125,438	75,000	*
Jeremy Kaufman	87,719(72)	*	62,719	37,500	*
Mark Cohen	1,799,737(43)	4.4%	510,597	1,289,140	3.2%
Saul Yedgar	3,804,734(44)	9.5%	31,359	3,779,625	9.4%
Gur Roshwalb	175,438(45)	*	150,438	37,500	*
Fredric Price	175,438(46)	*	125,438	75,000	*

(a) Includes (i) 14,222,959 Ordinary shares outstanding prior to the September 2013 Financing; (ii) 21, 958,302 shares issued as part of the September 2013 Financing; and (iii) 4,046,692 Ordinary shares to be issued as a result of price protection provisions from investment agreements among the Company and previous investors that were triggered by the September 2013 Financing.

* Represents beneficial ownership of less than 1% of our outstanding Ordinary Shares.

(1) Julian C. Baker and Felix J. Baker are the controlling members of the general partners of the general partners of the Baker Entities. Baker Bros. Advisors LP and affiliates (the "Adviser") serves as the Investment Adviser to each of 667, L.P., Baker Brothers Life Sciences, L.P. and 14159, L.P. (collectively, the "Baker Entities'). Pursuant to amended and restated management agreements between the Adviser, each of the Baker Entities and the general partners of the Baker Entities, the Adviser has complete and unlimited discretion and authority with respect to the Baker Entities investments and voting power over investments. Julian C. Baker and Felix J. Baker are the principals of the Adviser and each may be deemed to control the Adviser and to indirectly beneficially own the shares beneficially owned by it. Julian C. Baker and Felix J. Baker disclaim beneficial ownership of the securities directly owned by the Baker Entities, and this disclosure shall not be deemed to be an admission that Julian C. Baker and/or Felix J. Baker are the beneficial owners of such securities for purposes of Section 13(d) or any other purpose. The address for Baker Bros. Advisors LP and affiliates and its affiliates is 667 Madison Avenue, 21st Floor, New York, NY 10065.

(2) Franklin Advisors, Inc. ("FAV"), an indirectly wholly owned subsidiary of a public traded company, Franklin Resources, Inc. ("FRI"), is the beneficial owner of these securities for purposes of Rule 13d-3 under the Exchange Act in its capacity as the investment adviser to Franklin Strategic Series - Franklin Biotechnology Discovery Fund and Franklin Templeton Investment Funds - Franklin Biotechnology Discovery Fund. When an investment management contract (including a sub-advisory agreement) delegates to FAV investment discretion or voting power over the securities held in the investment advisory accounts that are subject to that agreement, FRI treats FAV as having sole investment discretion or voting authority, as the case may be, unless the agreement specifies otherwise. Accordingly, FAV reports for purposes of Section 13(d) of the Exchange Act that it has sole investment discretion and voting authority over the securities covered by any such investment management agreement, unless otherwise specifically noted. The address for FAV is One Franklin Parkway, Building 920, San Mateo, CA 94403.

(3) Broadfin Capital, LLC serves as investment adviser to Broadfin Healthcare Master Fund, LTD with the power to direct investments and/or sole power to vote the shares owned by Broadfin Healthcare Master Fund, LTD. Kevin Kotler, a natural person, is the Managing Member of Broadfin Capital, LLC. Mr. Kotler has voting and dispositive power over the shares held by Broadfin Healthcare Master Fund, LTD. Mr. Kotler disclaims beneficial ownership of all shares beneficially owned, except to the extent of his pecuniary interests in such shares. The address for Broadfin Capital, LLC is 237 Park Avenue, Suite 900, New York, NY 10017.

(4) Sabby Healthcare Volatility Master Fund, Ltd. has indicated that Hal Mintz has voting and investment power over the shares held by it. The Sabby Healthcare Volatility Master Fund, Ltd. has also indicated that Sabby Management, LLC serves as its investment manager, that Hal Mintz is the manager of Sabby Management, LLC and that each of Sabby Management, LLC and Hal Mintz disclaim beneficial ownership over these shares except to the extent of any pecuniary interest therein.

(5) Nathan Fischel and Fariba Ghodsian are the managing members of DAFNA Life Science Ltd, DAFNA Life Science Market Neutral Ltd and DAFNA Life Science Select Ltd (the "DAFNA Funds") and may be deemed to have shared voting and investment power with respect to the securities held by the DAFNA Funds. The address for DAFNA Lifescience Ltd., DAFNA Lifescience Market Neutral Ltd. and DAFNA Lifescience Select Ltd. is 10990 Wilshire Boulevard, Suite 1400, Los Angeles, California 90024.

(6) Heights Capital Management, Inc., the authorized agent of Capital Ventures International ("CVI"), has discretionary authority to vote and dispose of the shares held by CVI and may be deemed to be the beneficial owner of these shares. Martin Kobinger, in his capacity as Investment Manager of Heights Capital Management, Inc., may also be deemed have investment discretion and voting power over the shares held by CVI. Mr. Kobinger disclaims any such beneficial ownership of the shares. The address for CVI; c/o Heights Capital Management, Inc., its authorized agent is 101 California Street, Suite 3250, San Francisco, CA 94111.

(7) Konrad Ackerman ("Mr. Ackerman") is the director of Alpha Capital Anstalt ("Alpha") and in such capacity may be deemed to have voting control and investment discretion over the securities held for the account of Alpha. As a result of the foregoing, Mr. Ackerman may be deemed to have beneficial ownership (as determined under Section 13(d) of the Exchange Act) of any Ordinary Shares deemed to be beneficially owned by Alpha.

(8) Represents (i) 748,816 Ordinary Shares, (ii) 846,710 Ordinary Shares issued as a result of price protection provisions from an investment agreement that were triggered by the September 2013 Financing, and (iii) 335,366 Ordinary Shares subject to issuance upon exercise of the April 2012 Warrants, 59,634 Ordinary Shares subject to issuance upon exercise of the January 2013 Warrants. The holder will not have the right to exercise any portion of such Warrants if the holder, together with its affiliates, would beneficially own in excess of 4.9%, as applicable, of the number of shares of our Ordinary Shares outstanding immediately after giving effect to the exercise as such percentage ownership is determined in accordance with the terms of the Warrants. Accordingly, the number of Ordinary Shares Owned presented excludes an aggregate of 1,244,912 Ordinary Shares underlying Warrants.

(9) Ari Kluger is the president of Osher Capital Partners LLC. ("Osher") and in such capacity may be deemed to have voting control and investment discretion over the securities held for the account of Osher. As a result of the foregoing, Mr. Kluger may be deemed to have beneficial ownership (as determined under Section 13(d) of the Exchange Act) of any Ordinary Shares deemed to be beneficially owned by Osher.

(10) Represents 152,500 Ordinary Shares, 94,078 Ordinary Shares issued as a result of price protection provisions from an investment agreement that were triggered by the September 2013 Financing and 75,000 Ordinary Shares subject to issuance upon exercise of the 2013 Financing Warrants.

(12) Chaim Davis exercises sole voting and dispositive power with respect to the shares held of record by Revach Fund LP.

(13) Iroquois Capital Management L.L.C. ("Iroquois Capital") is the investment manager of Iroquois Master Fund, Ltd ("IMF"). Consequently, Iroquois Capital has voting control and investment discretion over securities held by IMF. As managing members of Iroquois Capital, Joshua Silverman and Richard Abbe make voting and investment decisions on behalf of Iroquois Capital in its capacity as investment manager to IMF. As a result of the foregoing, Mr. Silverman and Mr. Abbe may be deemed to have beneficial ownership (as determined under Section 13(d) of the Securities Exchange Act of 1934, as amended) of the securities held by IMF.

(14) Represents 335,366 Ordinary Shares subject to issuance upon exercise of the April 2012 Warrants and an additional 629,546 Ordinary Shares issuable upon exercise of warrants as a result of anti-dilution provisions set forth in such warrants that were triggered by the September 2013 Financing.

(15) Represents 7,500 Ordinary Shares, 18,815 Ordinary Shares issued as a result of price protection provisions from an investment agreement that were triggered by the September 2013 Financing, and 3,750 Ordinary Shares subject to issuance upon exercise of the November 2012 Warrants.

(16) Represents 12,500 Ordinary Shares, 31,359 Ordinary Shares issued as a result of price protection provisions from an investment agreement that were triggered by the September 2013 Financing, and 6,250 Ordinary Shares subject to issuance upon exercise of the November 2012 Warrants.

(17) Represents 12,500 Ordinary Shares, 31,359 Ordinary Shares issued as a result of price protection provisions from an investment agreement that were triggered by the September 2013 Financing, and 6,250 Ordinary Shares subject to issuance upon exercise of the November 2012 Warrants.

(18) Represents 50,000 Ordinary Shares, 125,438 Ordinary Shares issued as a result of price protection provisions from an investment agreement that were triggered by the September 2013 Financing, and 25,000 Ordinary Shares subject to issuance upon exercise of the November 2012 Warrants.

(19) Represents 200,000 Ordinary Shares, 501,754 Ordinary Shares issued as a result of price protection provisions from an investment agreement that were triggered by the September 2013 Financing, and 100,000 Ordinary Shares subject to issuance upon exercise of the November 2012 Warrants.

(20) Represents 50,000 Ordinary Shares, 125,438 Ordinary Shares issued as a result of price protection provisions from an investment agreement that were triggered by the September 2013 Financing, and 25,000 Ordinary Shares subject to issuance upon exercise of the November 2012 Warrants.

(21) Represents 12,500 Ordinary Shares, 31,359 Ordinary Shares issued as a result of price protection provisions from an investment agreement that were triggered by the September 2013 Financing, and 6,250 Ordinary Shares subject to issuance upon exercise of the November 2012 Warrants.

(22) Represents 12,500 Ordinary Shares, 31,359 Ordinary Shares issued as a result of price protection provisions from an investment agreement that were triggered by the September 2013 Financing, and 6,250 Ordinary Shares subject to issuance upon exercise of the November 2012 Warrants.

(23) Represents 50,000 Ordinary Shares, 125,438 Ordinary Shares issued as a result of price protection provisions from an investment agreement that were triggered by the September 2013 Financing, and 25,000 Ordinary Shares subject to issuance upon exercise of the November 2012 Warrants.

(24) Represents 100,000 Ordinary Shares, 250,877 Ordinary Shares issued as a result of price protection provisions from an investment agreement that were triggered by the September 2013 Financing, and 50,000 Ordinary Shares subject to issuance upon exercise of the November 2012 Warrants.

(25) Represents 50,000 Ordinary Shares, 125,438 Ordinary Shares issued as a result of price protection provisions from an investment agreement that were triggered by the September 2013 Financing, and 25,000 Ordinary Shares subject to issuance upon exercise of the November 2012 Warrants.

(26) Represents 37,500 Ordinary Shares, 94,078 Ordinary Shares issued as a result of price protection provisions from an investment agreement that were triggered by the September 2013 Financing, and 18,750 Ordinary Shares subject to issuance upon exercise of the November 2012 Warrants.

(27) Represents 25,000 Ordinary Shares, 62,719 Ordinary Shares issued as a result of price protection provisions from an investment agreement that were triggered by the September 2013 Financing, and 12,500 Ordinary Shares subject to issuance upon exercise of the November 2012 Warrants.

(28) Represents 25,000 Ordinary Shares, 62,719 Ordinary Shares issued as a result of price protection provisions from an investment agreement that were triggered by the September 2013 Financing, and 12,500 Ordinary Shares subject to issuance upon exercise of the November 2012 Warrants.

(29) Represents 12,500 Ordinary Shares, 31,359 Ordinary Shares issued as a result of price protection provisions from an investment agreement that were triggered by the September 2013 Financing, and 6,250 Ordinary Shares subject to issuance upon exercise of the November 2012 Warrants.

(30) Represents 100,000 Ordinary Shares, 250,877 Ordinary Shares issued as a result of price protection provisions from an investment agreement that were triggered by the September 2013 Financing, and 50,000 Ordinary Shares subject to issuance upon exercise of the November 2012 Warrants.

(31) Represents 25,000 Ordinary Shares, 62,719 Ordinary Shares issued as a result of price protection provisions from an investment agreement that were triggered by the September 2013 Financing, and 12,500 Ordinary Shares subject to issuance upon exercise of the November 2012 Warrants.

(32) Represents 12,000 Ordinary Shares, 30,105 Ordinary Shares issued as a result of price protection provisions from an investment agreement that were triggered by the September 2013 Financing, and 6,000 Ordinary Shares subject to issuance upon exercise of the November 2012 Warrants.

(33) Represents 10,000 Ordinary Shares, 25,087 Ordinary Shares issued as a result of price protection provisions from an investment agreement that were triggered by the September 2013 Financing, and 5,000 Ordinary Shares subject to issuance upon exercise of the November 2012 Warrants.

(34) Represents 12,500 Ordinary Shares, 31,359 Ordinary Shares issued as a result of price protection provisions from an investment agreement that were triggered by the September 2013 Financing, and 6,250 Ordinary Shares subject to issuance upon exercise of the November 2012 Warrants.

(35) Represents 12,500 Ordinary Shares, 31,359 Ordinary Shares issued as a result of price protection provisions from an investment agreement that were triggered by the September 2013 Financing, and 6,250 Ordinary Shares subject to issuance upon exercise of the November 2012 Warrants.

(36) Represents 12,500 Ordinary Shares, 31,359 Ordinary Shares issued as a result of price protection provisions from an investment agreement that were triggered by the September 2013 Financing, and 6,250 Ordinary Shares subject to issuance upon exercise of the November 2012 Warrants.

(37) Represents 12,500 Ordinary Shares, 31,359 Ordinary Shares issued as a result of price protection provisions from an investment agreement that were triggered by the September 2013 Financing, and 6,250 Ordinary Shares subject to issuance upon exercise of the November 2012 Warrants.

(38) Represents 10,000 Ordinary Shares, 25,087 Ordinary Shares issued as a result of price protection provisions from an investment agreement that were triggered by the September 2013 Financing, and 5,000 Ordinary Shares subject to issuance upon exercise of the November 2012 Warrants.

(39) Represents 2,500 Ordinary Shares, 6,271 Ordinary Shares issued as a result of price protection provisions from an investment agreement that were triggered by the September 2013 Financing, and 1,250 Ordinary Shares subject to issuance upon exercise of the November 2012 Warrants.

(40) Represents 5,000 Ordinary Shares, 12,543 Ordinary Shares issued as a result of price protection provisions from an investment agreement that were triggered by the September 2013 Financing, and 2,500 Ordinary Shares subject to issuance upon exercise of the November 2012 Warrants.

(41) Represents 50,000 Ordinary Shares and 125,438 Ordinary Shares issued as a result of price protection provisions from an investment agreement that were triggered by the September 2013 Financing.

(42) Represents 25,000 Ordinary Shares and 62,719 Ordinary Shares issued as a result of price protection provisions from an investment agreement that were triggered by the September 2013 Financing.

(43) Represents 632,490 Ordinary Shares, options to purchase an aggregate of 271,500 Ordinary Shares, warrants to purchase an aggregate of 385,150 Ordinary Shares, including 97,575 Ordinary Shares subject to issuance upon exercise of the 2013 Financing Warrants, all of which are exercisable within the next 60 days and 510,597 Ordinary Shares issued as a result of price protection provisions from an investment agreement that were triggered by the September 2013 Financing. Mr. Cohen is Chairman of the Company.

(44) Represents 3,976,075 Ordinary Shares, 31,359 Ordinary Shares issued as a result of price protection provisions from an investment agreement that were triggered by the September 2013 Financing and excludes warrant call options granted to Mark Cohen to purchase 202,700 Ordinary Shares, all of which are exercisable within the next 60 days. Dr. Yedgar is Chief Scientific Officer of the Company and a member of our board of directors.

(45) Represents 112,719 Ordinary Shares and 62,719 Ordinary Shares issued as a result of price protection provisions from an investment agreement that were triggered by the September 2013 Financing. Dr. Roshwalb is Chief Executive Officer of the Company.

(46) Represents 50,000 Ordinary Shares and 125,438 Ordinary Shares issued as a result of price protection provisions from an investment agreement that were triggered by the September 2013 Financing. Mr. Price is a member of our board of directors.

TAXATION

The following summary contains a description of certain United Kingdom and United States federal income tax consequences of the acquisition, ownership and disposition of our Ordinary Shares or ADSs to a U.S. holder of our Ordinary Shares or ADSs. The summary is based upon the tax laws of the United Kingdom and the United States and the respective regulations thereunder as of the date hereof, which are subject to change.

For purposes of this description, a "U.S. Holder" includes any beneficial owner of the Celsus Ordinary Shares or ADSs that is, for U.S. federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or organized under the laws of any state thereof, or the District of Columbia;
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if (1) a court within the United States is able to exercise primary supervision over its administration and one or more United States persons have the authority to control all of the substantial decisions of such trust; or (2) such trust has a valid election in effect to be treated as a United States person for U.S. federal income tax purposes.

A "Non-U.S. Holder" is any beneficial owner of our Ordinary Shares or ADSs that is not a U.S. Holder.

This section does not purport to be a comprehensive description of all of the tax considerations that may be relevant to any particular investor. This discussion assumes that you are familiar with the tax rules applicable to investments in securities generally, and with any special rules to which you may be subject. In particular, the discussion deals only with investors that will hold Celsus Ordinary Shares or ADSs as capital assets, and does not address the tax treatment of investors that are subject to special rules, such as banks, financial institutions, insurance companies, dealers or traders in securities or currencies, persons that elect mark-to-market treatment, tax-exempt entities (including 401 pensions plans), real estate investment trusts, regulated investment companies, grantor trusts, individual retirement and other tax-deferred accounts, persons that received Celsus ordinary or ADS shares as compensation for the performance of services, persons who own, directly, indirectly through non-U.S. entities or by attribution by application of the constructive ownership rules of section 958(b) of the United States Internal Revenue Code of 1986, or Code, 10% or more of Celsus voting shares or ADS, persons that are residents of the U.K. for U.K. tax purposes or that conduct a business or have a permanent establishment in the U.K., persons that hold Celsus Ordinary Shares or ADSs as a position in a straddle, hedging, conversion, integration, constructive sale or other risk reduction transaction, certain former citizens or long-term residents of the U.S., partnerships and their partners and persons whose functional currency is not the U.S. dollar. This discussion is based on laws, treaties, judicial decisions, and regulatory interpretations in effect on the date hereof, all of which are subject to change, as well as, in the United States, the Internal Revenue Code of 1986, as amended, or the Code, administrative pronouncements, judicial decisions, and final, temporary and proposed Treasury regulations, all as of the date hereof, any of which is subject to change, possibly with retroactive effect.

You are urged to consult with your own advisers regarding the tax consequences of the acquisition, ownership, and disposition of our Ordinary Shares or ADSs in the light of your particular circumstances, including the effect of any state, local, or other national laws.

United Kingdom tax considerations

Taxation of dividends

Under current U.K. tax law, no tax is required to be withheld in the United Kingdom at source from cash dividends paid to U.S. resident holders.

Taxation of Capital Gains

Subject to the comments in the following paragraph, a holder of Celsus Ordinary Shares or ADSs who, for U.K. tax purposes, is neither resident nor, in the case of an individual, ordinarily resident, in the U.K. will not be liable for U.K. taxation on capital gains realized on the disposal of Celsus Ordinary Shares or ADS unless at the time of the disposal:

- the holder carries on a trade, or in the case of an individual, a profession or vocation in the United Kingdom through, in the case of an individual, a branch or agency, or, in the case of a company, a permanent establishment, and
- the Celsus Ordinary Shares or ADSs are or have been used, held, or acquired for the purpose of such trade, profession, vocation, branch, agency or permanent establishment.

A holder of Celsus Ordinary Shares or ADSs who (1) is an individual who has ceased to be resident or ordinarily resident for U.K. tax purposes in the United Kingdom, (2) was resident or ordinarily resident for U.K. tax purposes in the United Kingdom for at least four out of the seven U.K. tax years immediately preceding the year in which he or she ceased to be both resident and ordinarily resident in the United Kingdom, (3) only remains non-resident and non-ordinarily resident in the United Kingdom for a period of less than five tax years and (4) disposes of his or her Celsus Ordinary Shares or ADSs during that period may also be liable, upon returning to the United Kingdom, for U.K. tax on capital gains, subject to any available exemption or relief, even though he or she was not resident or ordinarily resident in the United Kingdom at the time of the disposal.

Inheritance Tax

Celsus Ordinary Shares or ADSs are assets situated in the United Kingdom for the purposes of U.K. inheritance tax (the equivalent of U.S. estate and gift tax). Subject to the discussion of the U.K.-U.S. estate tax treaty in the next paragraph, U.K. inheritance tax may apply (subject to any available reliefs) if an individual who holds Celsus Ordinary Shares or ADSs gifts them or dies even if he or she is neither domiciled in the United Kingdom nor deemed to be domiciled there under U.K. law. For inheritance tax purposes, a transfer of Celsus Ordinary Shares or ADSs at less than full market value may be treated as a gift for these purposes. Special inheritance tax rules apply (1) to gifts if the donor retains some benefit, (2) to close companies and (3) to trustees of settlements.

However, as a result of the U.K.-U.S. estate tax treaty, Celsus Ordinary Shares or ADSs held by an individual who is domiciled in the United States for the purposes of the U.K.-U.S. estate tax treaty and who is not a U.K. national will not be subject to U.K. inheritance tax on that individual's death or on a gift of the Celsus Ordinary Shares or ADSs unless the Ordinary Shares or ADSs:

- are part of the business property of a permanent establishment in the United Kingdom, or
- pertain to a fixed base in the United Kingdom used for the performance of independent personal services.

The U.K.-U.S. estate tax treaty provides a credit mechanism if the Celsus Ordinary Shares or ADSs are subject to both U.K. inheritance tax and to U.S. estate and gift tax.

U.K. Stamp Duty and Stamp Duty Reserve Tax (SDRT)

In general no stamp duty should be payable on any transfer of ADSs provided that the ADSs and any separate instrument of transfer are executed and retained at all times outside the United Kingdom. A transfer of shares in registered form would attract ad valorem stamp duty generally at the rate of 0.5% of the purchase price of the shares. There is no charge to ad valorem stamp duty on gifts.

An agreement to transfer ADSs should not give rise to SDRT. SDRT would generally be payable on an unconditional agreement to transfer shares in registered form at 0.5% of the amount or value of the consideration for the transfer, but is repayable if, within six years of the date of the agreement, an instrument transferring the shares is executed or, if the SDRT has not been paid, the liability to pay the tax (but not necessarily interest and penalties) would be cancelled.

HMRC now accepts that stamp duty/SDRT is not payable on issues of UK shares and securities to depositary receipt issuers and clearance services anywhere in the world. HMRC still contends however that stamp duty/SDRT at 1.5% is payable on transfers (by sale or otherwise) of shares and securities to depository receipt systems or clearance services that are not an integral part of an issue of share capital.

United States federal income taxation considerations

U.S. Taxation of Distributions

The gross amount of any distributions made by us to a U.S. Holder will generally be subject to U.S. federal income tax as dividend income to the extent paid or deemed paid out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Such dividends will not be eligible for the dividends received deduction generally allowed to U.S. corporations with respect to dividends received from other U.S. corporations. To the extent that an amount received by a U.S. Holder exceeds its allocable share of our current and accumulated earnings and profits, such excess would, subject to the discussion below, be treated first as a tax-free return of capital which will reduce such U.S. Holder's tax basis in his Celsus Ordinary Shares or ADSs and then, to the extent such distribution exceeds such U.S. Holder's tax basis, it will be treated as capital gain.

Subject to applicable holding period and other limitations, the U.S. Dollar amount of dividends received on the Celsus Ordinary Shares or ADSs by certain non-corporate U.S. Holders are currently subject to taxation at a maximum rate of 15% if the dividends are "qualified dividends" and certain other requirements are met. Dividends paid on the Celsus Ordinary Shares or ADSs will be treated as qualified dividends if: (i) we are eligible for the benefits of the Treaty or the Ordinary Shares or ADSs are readily tradable on an established U.S. securities market and (ii) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company, or PFIC. Although we currently believe that distributions on the Celsus Ordinary Shares or ADSs that are treated as dividends for U.S. federal income tax purposes should constitute qualified dividends, no assurance can be given that this will be the case. U.S. Holders should consult their tax advisors regarding the tax rate applicable to dividends received by them with respect to the Celsus Ordinary Shares or ADSs, as well as the potential treatment of any loss on a disposition of Celsus Ordinary Shares or ADSs as long-term capital loss regardless of the U.S. Holders' actual holding period for the Celsus Ordinary Shares or ADSs.

The 15% maximum individual tax rate for qualified dividends is scheduled to expire at the end of 2012, after which all dividends would be subject to ordinary income tax rates. The maximum rate for ordinary income for individuals, currently 35%, is scheduled to increase to 39.6% in 2013.

We have not maintained and do not plan to maintain calculations of earnings and profits under U.S. federal income tax principles. Accordingly, it is unlikely that U.S. Holders will be able to establish whether a distribution by us is in excess of our and accumulated earnings and profits (as computed under U.S. federal income tax principles). If U.S. Holders are unable to establish that distributions are in excess of our accumulated earnings and profits as determined under U.S. federal income tax principles, any distribution by us may be treated as taxable in its entirety as a dividend to U.S. Holders for U.S. federal income tax purposes.

For foreign tax credit computation purposes, dividends will generally constitute foreign source income, and with certain exceptions, will constitute "passive category income."

U.S. Taxation of Capital Gains

Gain or loss realized by a U.S. Holder on the sale or other disposition of Celsus Ordinary Shares or ADSs will be subject to U.S. federal income taxation as capital gain or loss in an amount equal to the difference between the U.S. Holder's adjusted tax basis in the Celsus Ordinary Shares or ADSs and the amount realized on the disposition. Such gain or loss generally will be treated as long-term capital gain or loss if the Celsus Ordinary Shares or ADSs have been held for more than one year. Any such gain or loss realized will generally be treated as U.S. source gain or loss. In the case of a U.S. Holder who is an individual, capital gains are currently subject to federal income tax at preferential rates if specified minimum holding requirements are met. The deductibility of capital losses is subject to significant limitations.

The maximum individual rate for long-term capital gain is currently 15%. This rate is scheduled to increase to 20% after 2012.

Medicare Tax

For taxable years beginning after 2012, individuals, estates and trusts will be subject to a Medicare tax of 3.8% on "net investment income," including in particular dividends, interest, and capital gain from the sale of investment securities. The Medicare tax will apply to the lesser of such net investment income or the excess of the taxpayer's adjusted gross income (with certain modifications) over a specified amount. The specified amount is $250,000 for married individuals filing jointly, $125,000 for married individuals filing separately, and $200,000 for single individuals.

Passive foreign investment company rules

We believe that we may be treated as a PFIC for U.S. federal income tax purposes for the current taxable year and in future years.

We would be a PFIC for U.S. federal income tax purposes in any taxable year if 75% or more of our gross income would be passive income, or on average at least 50% of the gross value of our assets is held for the production of, or produces, passive income. In making the above determination, we are treated as earning our proportionate share of any income and owning our proportionate share of any asset of any company in which we are considered to own, directly or indirectly, 25% or more of the shares by value. If we were considered a PFIC at any time when a U.S. Holder held Celsus Ordinary Shares or ADSs, we generally should continue to be treated as a PFIC with respect to that U.S. Holder, and the U.S. Holder generally will be subject to special rules with respect to (a) any gain realized on the disposition of the Celsus Ordinary Shares or ADSs and (b) any "excess distribution" by us to the U.S. Holder in respect of the Celsus Ordinary Shares or ADSs. Under the PFIC rules: (i) the gain or excess distribution would be allocated ratably over the U.S. Holder's holding period for the Celsus Ordinary Shares or ADSs, (ii) the amount allocated to the taxable year in which the gain or excess distribution was realized or to any year before we became a PFIC would be taxable as ordinary income and (iii) the amount allocated to each other taxable year would be subject to tax at the highest tax rate in effect in that year and an interest charge generally applicable to underpayments of tax would be imposed in respect of the tax attributable to each such year. Because a U.S. Holder that is a direct (and in certain cases indirect) shareholder of a PFIC is deemed to own its proportionate share of interests in any lower-tier PFICs, U.S. Holders should be subject to the foregoing rules with respect to any of our subsidiaries characterized as PFICs, if we are deemed a PFIC. A U.S. Holder may be able to avoid many of these adverse tax consequences if it elects to mark the Celsus Ordinary Shares or ADSs to market on an annual basis. However, any such mark to market election would not be available for a lower-tier PFIC. U.S. Holders are urged to consult their tax advisors about the PFIC rules, including the advisability, procedure and timing of making a mark-to-market election and the U.S. Holder's eligibility to file such an election (including whether the Celsus Ordinary Shares or ADSs are treated as ''publicly traded'' for such purpose).

A U.S. Holder will be required to file Internal Revenue Service Form 8621 if such U.S. Holder owns Celsus Ordinary Shares or ADSs in any year in which we are classified as a PFIC.

Information reporting and backup withholding

A U.S. Holder may be subject to information reporting to the IRS and possible backup withholding with respect to dividends paid on, or proceeds of the sale or other disposition of the Celsus Ordinary Shares or ADSs unless such U.S. Holder is a corporation or qualifies within certain other categories of exempt recipients or provides a taxpayer identification number and certifies as to no loss of exemption from backup withholding and otherwise complies with applicable requirements of the backup withholding rules. Amounts withheld under these rules may be credited against the U.S. Holder's U.S. federal income tax liability and a U.S. Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate IRS forms and furnishing any required information. A U.S. Holder who does not provide a correct taxpayer identification number may be subject to penalties imposed by the IRS.

A non-U.S. Holder generally will not be subject to information reporting or backup withholding with respect to dividends on Celsus Ordinary Shares or ADSs, unless payment is made through a paying agent (or office) in the United States or through certain U.S.-related financial intermediaries. However, a Non-U.S. Holder generally may be subject to information reporting and backup withholding with respect to the payment within the United States of dividends on the Celsus Ordinary Shares or ADSs, unless such non-U.S. Holder provides a taxpayer identification number, certifies under penalties of perjury as to its foreign status, or otherwise establishes an exemption.

Pursuant to the Hiring Incentives to Restore Employment Act enacted on March 18, 2010, an individual U.S. Holder may be required to submit to the IRS certain information with respect to his or her beneficial ownership of Celsus Ordinary Shares or ADSs, unless such Ordinary Shares or ADSs are held on his or her behalf by a financial institution, as defined in Section 6038D of the Code. The new law also imposes penalties if an individual U.S. Holder is required to submit such information to the IRS and fails to do so. U.S. Holders should consult their own tax advisors regarding the application of the new law in their particular circumstances.

PLAN OF DISTRIBUTION

We are registering the Ordinary Shares represented by ADSs issued and issuable upon exercise of the Warrants to permit the resale of these Ordinary Shares represented by ADSs by the Selling Shareholders from time to time after the date of this prospectus. We will not receive any of the proceeds from the sale by the Selling Shareholders of the Ordinary Shares or ADSs. We will bear all fees and expenses incident to our obligation to register the Ordinary Shares.

The Selling Shareholders may sell all or a portion of the Ordinary Shares represented by ADSs held by them and offered hereby from time to time directly or through one or more underwriters, broker-dealers or agents. If the Ordinary Shares represented by ADSs are sold through underwriters or broker-dealers, the Selling Shareholders will be responsible for underwriting discounts or commissions or agent's commissions. The Selling Shareholders may only sell their Ordinary Shares represented by ADSs pursuant to this prospectus at a fixed price of $2.00 per share (or $4.00 per ADS) until such time as our ADSs are quoted on the OTCBB or another public trading market for our ADSs or Ordinary Shares otherwise develops. At and after such time, the Ordinary Shares represented by ADSs may be sold in one or more transactions at fixed prices, at prevailing market prices at the time of the sale, at varying prices determined at the time of sale or at negotiated prices. These sales may be effected in transactions, which may involve crosses or block transactions, pursuant to one or more of the following methods:

- on any national securities exchange or quotation service on which the securities may be listed or quoted at the time of sale;
- in the over-the-counter market;
- in transactions otherwise than on these exchanges or systems or in the over-the-counter market;
- through the writing or settlement of options, whether such options are listed on an options exchange or otherwise;
- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- short sales made after the date this registration statement is declared effective by the SEC;
- broker-dealers may agree with a selling security holder to sell a specified number of such shares at a stipulated price per share;

- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law.

The Selling Shareholders may also sell Ordinary Shares or ADSs under Rule 144 promulgated under the Securities Act of 1933, as amended, if available, rather than under this prospectus. In addition, the Selling Shareholders may transfer the Ordinary Shares or ADSs by other means not described in this prospectus. If the Selling Shareholders effect such transactions by selling Ordinary Shares or ADSs to or through underwriters, broker-dealers or agents, such underwriters, broker-dealers or agents may receive commissions in the form of discounts, concessions or commissions from the Selling Shareholders or commissions from purchasers of the Ordinary Shares or ADSs for whom they may act as agent or to whom they may sell as principal (which discounts, concessions or commissions as to particular underwriters, broker-dealers or agents may be in excess of those customary in the types of transactions involved). In connection with sales of the Ordinary Shares or ADSs or otherwise, the Selling Shareholders may enter into hedging transactions with broker-dealers, which may in turn engage in short sales of the Ordinary Shares or ADSs in the course of hedging in positions they assume. The Selling Shareholders may also sell Ordinary Shares or ADSs short and deliver Ordinary Shares or ADSs covered by this prospectus to close out short positions and to return borrowed shares in connection with such short sales. The Selling Shareholders may also loan or pledge Ordinary Shares or ADSs to broker-dealers that in turn may sell such shares.

The Selling Shareholders may pledge or grant a security interest in some or all of the securities owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the Ordinary Shares from time to time pursuant to this prospectus or any amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act amending, if necessary, the list of Selling Shareholders to include the pledgee, transferee or other successors in interest as Selling Shareholders under this prospectus. The Selling Shareholders also may transfer and donate the Ordinary Shares in other circumstances in which case the transferees, donees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

To the extent required by the Securities Act and the rules and regulations thereunder, the Selling Shareholders and any broker-dealer participating in the distribution of the Ordinary Shares or ADSs may be deemed to be "underwriters" within the meaning of the Securities Act, and any commission paid, or any discounts or concessions allowed to, any such broker-dealer may be deemed to be underwriting commissions or discounts under the Securities Act. At the time a particular offering of the Ordinary Shares or ADSs is made, a prospectus supplement, if required, will be distributed, which will set forth the aggregate amount of Ordinary Shares being offered and the terms of the offering, including the name or names of any broker-dealers or agents, any discounts, commissions and other terms constituting compensation from the Selling Shareholders and any discounts, commissions or concessions allowed or re-allowed or paid to broker-dealers.

Under the securities laws of some states, the Ordinary Shares or ADSs may be sold in such states only through registered or licensed brokers or dealers. In addition, in some states the Ordinary Shares or ADSs may not be sold unless such shares have been registered or qualified for sale in such state or an exemption from registration or qualification is available and is complied with.

There can be no assurance that any Selling Shareholder will sell any or all of the Ordinary Shares represented by ADSs registered pursuant to the registration statement, of which this prospectus forms a part.

The Selling Shareholders and any other person participating in such distribution will be subject to applicable provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, including, without limitation, to the extent applicable, Regulation M of the Exchange Act, which may limit the timing of purchases and sales of any of the Ordinary Shares or ADSs by the Selling Shareholders and any other participating person. To the extent applicable, Regulation M may also restrict the ability of any person engaged in the distribution of the Ordinary Shares or ADSs to engage in market-making activities with respect to the Ordinary Shares or ADSs. All of the foregoing may affect the marketability of the Ordinary Shares or ADSs and the ability of any person or entity to engage in market-making activities with respect to the ADSs.

We will pay all expenses of the registration of the Ordinary Shares pursuant to the registration rights agreement, estimated to be approximately $52,000 in total, including, without limitation, Securities and Exchange Commission filing fees and expenses of compliance with state securities or "blue sky" laws; provided, however, a Selling Shareholder will pay all underwriting discounts and selling commissions, if any. We will indemnify the Selling Shareholders against liabilities, including some liabilities under the Securities Act in accordance with the registration rights agreements or the Selling Shareholders will be entitled to contribution. We may be indemnified by the Selling Shareholders against civil liabilities, including liabilities under the Securities Act that may arise from any written information furnished to us by the Selling Shareholder specifically for use in this prospectus, in accordance with the related registration rights agreements or we may be entitled to contribution.

Once sold under the registration statement, of which this prospectus forms a part, the Ordinary Shares or ADSs will be freely tradable in the hands of persons other than our affiliates.

EXPERTS

The consolidated financial statements of Celsus Therapeutics PLC and its subsidiaries as of December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012 appearing in this registration statement on Form F-1 have been audited by Kost, Forer, Gabbay & Kasierer, a member of Ernst &Young Global, an independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

LEGAL MATTERS

The validity of the Ordinary Shares being offered by this prospectus and other legal matters concerning this offering relating to English law will be passed upon for us by Fladgate LLP.

ENFORCEABILITY OF CIVIL LIABILITIES

We are incorporated under the laws of England and Wales. Many of our directors and officers reside outside the United States, and a substantial portion of our assets and all or a substantial portion of the assets of such persons are located outside the United States. As a result, it may be difficult for you to serve legal process on us or our directors and executive officers (as well as certain directors, managers and executive officers of the finance subsidiaries) or have any of them appear in a U.S. court.

Mark S. Cohen of Pearl Cohen Zedek Latzer, LLP is our authorized agent upon whom process may be served in any action instituted in any U.S. federal or state court having subject matter jurisdiction in the Borough of Manhattan in New York, New York, arising out of or based upon this offering.

Fladgate LLP, our English solicitors, has advised us that there is some doubt as to the enforceability in the United Kingdom, in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities based solely on the federal securities laws of the United States. In addition, awards for punitive damages in actions brought in the United States or elsewhere may be unenforceable in the United Kingdom. An award for monetary damages under the U.S. securities laws would be considered punitive if it does not seek to compensate the claimant for loss or damage suffered and is intended to punish the defendant. The enforceability of any judgment in the United Kingdom will depend on the particular facts of the case as well as the laws and treaties in effect at the time. The United States and the United Kingdom do not currently have a treaty providing for recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters.

AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form F-1, including amendments and relevant exhibits and schedules, under the Securities Act covering the Ordinary Shares represented by ADSs to be sold in this offering. This prospectus, which constitutes a part of the registration statement, summarizes material provisions of contracts and other documents that we refer to in the prospectus. Since this prospectus does not contain all of the information contained in the registration statement, you should read the registration statement and its exhibits and schedules for further information with respect to us and our Ordinary Shares and the ADSs. You may review and copy the registration statement, reports and other information we file at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. You may also request copies of these documents upon payment of a duplicating fee by writing to the SEC. For further information on the public reference facility, please call the SEC at 1-800-SEC-0330. Our SEC filings, including the registration statement, are also available to you on the SEC's Web site at http://www.sec.gov.

We are subject to periodic reporting and other informational requirements of the Exchange Act as applicable to foreign private issuers. Our annual reports on Form 20-F for the year ended December 31, 2013 and subsequent years will be due four months following the fiscal year end. We are not required to disclose certain other information that is required from U.S. domestic issuers. Also, as a foreign private issuer, we are exempt from the rules of the Exchange Act prescribing the furnishing of proxy statements to shareholders and our executive officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

As a foreign private issuer, we are also exempt from the requirements of Regulation FD (Fair Disclosure) which, generally, are meant to ensure that select groups of investors are not privy to specific information about an issuer before other investors. We are, however, still subject to the anti-fraud and anti-manipulation rules of the SEC, such as Rule 10b-5. Since many of the disclosure obligations required of us as a foreign private issuer are different than those required by other U.S. domestic reporting companies, our shareholders, potential shareholders and the investing public in general should not expect to receive information about us in the same amount and at the same time as information is received from, or provided by, U.S. domestic reporting companies. We are liable for violations of the rules and regulations of the SEC, which do apply to us as a foreign private issuer.

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

Item 6. Indemnification of Directors, Officers and Employees

Our amended and restated memorandum and articles of association provide that, subject to the Companies Act, every person who is or was at any time a director or other officer (excluding an auditor) of our company may be indemnified out of the assets of our company against all costs, charges, expenses, losses or liabilities incurred by him in performing his duties or the exercise of his powers or otherwise in relation to or in connection with his duties, powers or office.

Traditionally, companies cannot exempt directors and auditors from, or indemnify them against, liability where they are negligent, in default, or in breach of duty or trust. The reason for this is that directors owe duties to their company and Parliament has considered in the past that, in the interests of shareholders, directors should have to face the consequences of their derelictions of duty.

This basic prohibition still stands but pursuant to the 2006 Act, companies can take advantage of a specific exemption to indemnify directors against liabilities to third parties, and can pay directors' costs of defense proceedings as they are incurred (subject to an obligation to repay if the defense is not successful). This was to address concerns that directors of companies with a US listing may face class actions in the US and to help alleviate (at least in the short term) the cost to directors of lengthy court proceedings. The key points of the 2006 Act are:

- Companies may indemnify directors against the legal and financial costs of proceedings brought by third parties. This does not extend to the legal costs of unsuccessful defense of criminal proceedings, fines imposed by criminal proceedings and fines imposed by regulatory bodies;

- Companies may pay directors' defense costs as they are incurred in civil or criminal cases, even if the action is brought by the company itself. However, a director in this situation will be required to pay any damages awarded to the company and to reimburse the company if he fails in his defense (unless the company has indemnified him in respect of his legal costs incurred in civil third party proceedings);

- Pension trustee companies (and their associated companies) may indemnify a director of a qualifying pension scheme against liability incurred in connection with the company's activities as trustee of that scheme;

- Companies may not provide indemnities to directors of UK-incorporated associated companies where it would be unlawful for that indemnity to be provided by the associated company;

- Companies may indemnify officers other than directors;

- Funds provided by the company to a director for these purposes are permitted under section 330 of the Companies Act 1985;

- Any indemnities provided by a company will need to be disclosed in the directors' report and shareholders will be able to inspect any indemnification agreement;

- A decision to indemnify directors under the new rules can be taken by a Company's board and no shareholder vote is required by the legislation; and

- Shareholders may by ordinary resolution ratify an act of a director, although the votes of the relevant director or any person connected with him will not be counted.

The registrant also maintains directors and officers insurance to insure such persons against certain

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Company pursuant to the charter provision, by-law, contract, arrangements, statute or otherwise, the Company acknowledges that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable.

Item 7. Recent Sales of Unregistered Securities

The following information is furnished with regard to all securities issued by the registrant within the last three years that were not registered under the Securities Act. Unless otherwise indicated below, the issuance of such shares was deemed exempt from registration requirements of the Securities Act as such securities were offered and sold outside of the United States to persons who were neither citizens nor residents of the United States or such sales were exempt from registration under Section 4(2) of Securities Act. No underwriting discounts or commissions were paid with respect to any of the issuances listed below.

From January 1, 2010, through September 24, 2013, we have issued the following securities, none of which involved a change in voting rights attached to the securities at issue:

- On May 26, 2010 we issued 10,000 ordinary shares at a price of £ 1.00 per share.
- On August 12, 2010, we issued 190,778 ordinary shares at a price of £ 1.00 per share.
- On April 21, 2011, we issued 21,528 ordinary shares from proceeds received by us in 2010 from the sale of such shares at a price of £ 1.00 per share.
- On April 21, 2011, we issued 396,923 ordinary shares at a price of $1.95 per share.
- On April 21, 2011, we issued 15,000 ordinary shares upon the exercise of options at an exercise price of £0.01 per share.
- On May 26, 2011, we issued 64,103 ordinary shares at a price of $1.95 per share.
- On August 5, 2011, we issued 39,472 ordinary shares at a price of $1.90 per share.
- On January 16, 2012, we issued 79,000 ordinary shares at a price of $2.00 per share and warrants to purchase up to 79,000 ordinary shares at an exercise price of $2.00 per share, which warrants expire on January 16, 2017.
- On February 12, 2012, we issued 86,000 ordinary shares at a price of $2.00 per share and warrants to purchase up to 76,000 ordinary shares at an exercise price of $2.00 per share, which warrants expire on February 12, 2017.
- On February 12, 2012, we issued PCZL a warrant to purchase 309,492 ordinary shares at an exercise price of $2.00 per share, which warrant expires on February 12, 2017. This warrant was issued to PCZL in satisfaction of certain legal fees owed by the Company.
- On March 19, 2012, we issued 12,500 ordinary shares at a share price of $2.00 per share and warrants to purchase up to 67,500 ordinary shares at an exercise price of $2.00 per share, which warrants expire on March 19, 2017.
- On April 4, 2012, we issued an aggregate of $1.1 million in original issue discount senior secured convertible notes and warrants to purchase up to an aggregate of 643,274 ordinary shares at an exercise price of $1.71, which warrants expire on April 4, 2017. On and after April 4, 2013, if a registration statement registering the ordinary shares underlying the warrants is not effective, the holders of the warrants may exercise their Warrants on a cashless basis. The offers, sales and issuances of the foregoing securities were deemed to be exempt from registration under the Securities Act in reliance on Rule 506 of Regulation D in that the issuance of securities to the accredited investors did not involve a public offering.

- On April 26, 2012, we issued 47,500 ordinary shares at a price of $2.00 per share and granted warrants to purchase up to 92,500 ordinary shares at an exercise price of $2.00 per share, which warrants expire on April 26, 2017.

- On May 22, 2012, we issued 10,000 ordinary shares at a price of $2.00 per share and granted warrants to purchase up to 10,000 ordinary shares at an exercise price of $2.00 per share, which warrants expire on May 22, 2017.

- On June 20, 2012, we granted, pursuant to the ESOP, options to purchase up to 395,000 ordinary shares at an exercise price of $1.56 per share and options to purchase up to 15,000 ordinary shares at an exercise price of $2.00 per share.

- On June 27, 2012, we issued 10,000 ordinary shares at a price of $2.25 per share and issued warrants to purchase up to 5,000 ordinary shares at an exercise price of $2.25 per share, which warrants expire on June 27, 2017 and options to purchase up to 2,988 ordinary shares at an exercise price of $1.75 per share.

- On August 3, 2012, we issued 7,500 ordinary shares at a price of $2.00 per share and granted warrants to purchase up to 7,500 ordinary shares at an exercise price of $2.00 per share, which warrants expire on August 3, 2017.

- As of June 14, 2012, all outstanding deferred shares have expired.

- On August 29, 2012, we entered into a subscription agreement with Europa International Inc. pursuant to which we sold 232,558 ordinary shares and five-year warrants to purchase 232,558 ordinary shares at an exercise price of $1.72 per share for an aggregate purchase price of $400,000. As a result of such transaction, the conversion price and exercise price of the Notes and Warrants issued in the April 2012 Financing should be reduced to $1.64 per share in accordance with calculation performed by us pursuant to the anti-dilution provisions contained in the April 2012 Financing agreements.

- On August 29, 2012, we issued 10,000 ordinary shares at a price of $2.00 per share and issued warrants to purchase up to 10,000 ordinary shares at an exercise price of $2.00 per share, which warrants expire on August 29, 2017.

- On September 28, 2012, we issued 8,375 ordinary shares at a price of $2.00 per share and issued warrants to purchase up to 8,375 ordinary shares at an exercise price of $2.00 per share, which warrants expire on September 28, 2017. In addition, we issued 16,279 ordinary shares for financial advisory services to a consultant in relation with our financing in August 2012.

- On November 30, 2012, we issued an aggregate of 751,500 units, each unit consisting of one Ordinary Share and one warrant to purchase one half of one share, at a price per unit of $2.00 for gross proceeds of $1,503,000. The warrants are to purchase up to an aggregate of 375,750 Ordinary Shares at an exercise price of $2.00, which warrants expire on November 30, 2017. On and after November 30, 2012, if a registration statement registering the Ordinary Shares underlying the warrants is not effective, the holders of the warrants may exercise their warrants on a cashless basis. We also issued to Garden State Securities, Inc. a warrant to purchase up to 90,180 Ordinary Shares at an exercise price of $2.00 per share, which warrant expires on November 30, 2017.

- On January 18, 2013, we issued 473,000 of our Ordinary Shares at a price of $2.00 per share, and we issued warrants to purchase 799,000 Ordinary Shares at an exercise price of $2.00 per share for total proceeds of approximately $946,000. In addition, we issued a warrant to purchase 43,035 Ordinary Shares to Garden State Securities as part of the compensation related to the 2013 Financing. On and after January 18, 2014, if a registration statement registering the Ordinary Shares underlying the warrants is not effective, the holders of the warrants may exercise their warrants on a cashless basis.

- On January 31, 2013, we issued an aggregate of 77,500 units, each unit consisting of one Ordinary Share and one warrant to purchase one half of one share, at a price per unit of $2.00 for gross proceeds of $155,000. The warrants are to purchase up to an aggregate of 30,000 Ordinary Shares at an exercise price of $2.00, which warrants expire on January 31, 2018. In addition, we issued a warrant to purchase 7,200 Ordinary Shares to Garden State Securities as part of the compensation related to the 2013 Financing. On and after January 31, 2013, if a registration statement registering the Ordinary Shares underlying the warrants is not effective, the holders of the warrants may exercise their warrants on a cashless basis.

- On February 28, 2013, we issued 63,000 of our Ordinary Shares at a price of $2.00 per share, and we issued warrants to purchase 31,500 Ordinary Shares at an exercise price of $2.00 per share for total proceeds of approximately $126,000. In addition, we issued a warrant to purchase 3,600 Ordinary Shares to Garden State Securities as part of the compensation related to the 2013 Financing. On and after February 28, 2014, if a registration statement registering the Ordinary Shares underlying the warrants is not effective, the holders of the warrants may exercise their warrants on a cashless basis.

- On March 20, 2013, we issued 25,000 of our Ordinary Shares at a price of $2.00 per share, and we issued warrants to purchase 12,500 Ordinary Shares at an exercise price of $2.00 per share for total proceeds of approximately $50,000. On and after March 20, 2014, if a registration statement registering the Ordinary Shares underlying the warrants is not effective, the holders of the warrants may exercise their warrants on a cashless basis.

- On April 8, 2013, we issued 32,500 of our Ordinary Shares at a price of $2.00 per share, and we issued warrants to purchase 16,250 Ordinary Shares at an exercise price of $2.00 per share for total proceeds of approximately $65,000. On and after April 8, 2014, if a registration statement registering the Ordinary Shares underlying the warrants is not effective, the holders of the warrants may exercise their warrants on a cashless basis.

- On April 30, 2013, we issued 117,000 of our Ordinary Shares at a price of $2.00 per share, and we issued warrants to purchase 58,500 Ordinary Shares at an exercise price of $2.00 per share for total proceeds of approximately $234,000. On and after April 30, 2014, if a registration statement registering the Ordinary Shares underlying the warrants is not effective, the holders of the warrants may exercise their warrants on a cashless basis.

- On May 13, 2013, we issued 20,000 of our Ordinary Shares at a price of $2.00 per share, and we issued warrants to purchase 10,000 Ordinary Shares at an exercise price of $2.00 per share for total proceeds of approximately $40,000. On and after May 13, 2014, if a registration statement registering the Ordinary Shares underlying the warrants is not effective, the holders of the warrants may exercise their warrants on a cashless basis.

- On September 10, 2013, we issued 34,150 of our Ordinary Shares at a price of $2.00 per share, and we issued warrants to purchase 17,075 Ordinary Shares at an exercise price of $2.00 per share for total proceeds of approximately $68,300. On and after September 10, 2014, if a registration statement registering the Ordinary Shares underlying the warrants is not effective, the holders of the warrants may exercise their warrants on a cashless basis.

- On September 17, 2013, we issued 11,000 of our Ordinary Shares at a price of $2.00 per share, and we issued warrants to purchase 5, 500 Ordinary Shares at an exercise price of $2.00 per share for total proceeds of approximately $22,000. On and after September 17, 2014, if a registration statement registering the Ordinary Shares underlying the warrants is not effective, the holders of the warrants may exercise their warrants on a cashless basis.

- On September 24, 2013, we issued an aggregate of 21,958,302 of our Ordinary Shares at a price of $0.57 per share for total gross proceeds of approximately $12,513,000. In addition, as a result of price protection provisions from investment agreements among us and previous investors, (i) an aggregate of 4,046,692 additional Ordinary Shares were issued to previous investors in connection with this Offering and (ii) there will be an additional 1,259,092 Ordinary Shares issuable upon exercise of outstanding warrants..

The offers, sales and issuances of the foregoing securities issued in the transactions from November 2012 to September 2013 were deemed to be exempt from registration under the Securities Act in reliance on Rule 506 of Regulation D in that the issuance of securities to the accredited investors did not involve a public offering.

Item 8. Exhibits and Financial Statement Schedules

(a) ***Exhibits***

See Exhibit Index.

The agreements included as exhibits to this registration statement contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties were made solely for the benefit of the other parties to the applicable agreement and (i) were not intended to be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate; (ii) may have been qualified in such agreement by disclosures that were made to the other party in connection with the negotiation of the applicable agreement; (iii) may apply contract standards of "materiality" that are different from "materiality" under the applicable securities laws; and (iv) were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement.

The registrant acknowledges that, notwithstanding the inclusion of the foregoing cautionary statements, the registrant is responsible for considering whether additional specific disclosures of material information regarding material contractual provisions are required to make the statements in this registration statement not misleading.

(b) ***Financial Statement Schedules***

All schedules have been omitted because either they are not required, are not applicable or the information is otherwise set forth in the consolidated financial statements and related notes thereto.

Item 9. Undertakings

(a) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions described in Item 8 hereof, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(b) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by section 10(a)(3) of the Securities Act;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement.

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) That for purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4), or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(3) That for the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and this offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(4) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering;

(5) To file a post-effective amendment to the registration statement to include any financial statements required by Item 8.A. of Form 20-F at the start of any delayed offering or throughout a continuous offering. Financial statements and information otherwise required by Section 10(a)(3) of the Act need not be furnished, provided that the registrant includes in the prospectus, by means of a post-effective amendment, financial statements required pursuant to this paragraph (a)(4) and other information necessary to ensure that all other information in the prospectus is at least as current as the date of those financial statements.

(6) That, for the purpose of determining liability under the Securities Act to any purchaser:

(i) If the registrant is relying on Rule 430B:

(A) Each prospectus filed by the registrant pursuant to Rule 424(b)(3) shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and

(B) Each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5), or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii), or (x) for the purpose of providing the information required by section 10(a) of the Securities Act shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which that prospectus relates, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference in the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date; or

(ii) If the registrant is subject to Rule 430C, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference in the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing this registration statement on Form F-1 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, New York on this 24th day of October, 2013.

CELSUS THERAPEUTICS PLC

By: /s/ Gur Roshwalb
Gur Roshwalb
Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each of the undersigned whose signature appears below hereby appoints Gur Roshwalb, Mark Cohen and Dov Elefant, and each of them acting singly, as his or her true and lawful attorney-in-fact to sign on his or her behalf and individually and in the capacity stated below and to file all amendments (including post-effective amendments) and make such changes and additions to this registration statement, including any subsequent registration statement for the same offering that may be filed under Rule 462(b), and to file the same, with all exhibits thereof, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or either of them, their substitute or substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by each of the following persons in the capacities and on the dates indicated:

Name	Title	Date
/s/ Mark S. Cohen Mark S. Cohen	Executive Chairman of the Board	October 24, 2013
/s/ Gur Roshwalb Gur Roshwalb	Chief Executive Officer (principal executive officer)	October 24, 2013
/s/ Dov Elefant Dov Elefant	Chief Financial and Operating Officer (principal financial officer and principal accounting officer)	October 24, 2013
/s/ David Sidransky David Sidransky, M.D.	Director	October 24, 2013
/s/ Johnson Lau Dr. Johnson Yiu-Nam Lau	Director	October 24, 2013
/s/ Saul Yedgar Saul Yedgar, PhD.	Director	October 24, 2013
/s/ Robert Doman Robert Doman	Director	October 24, 2013
/s/ Amos Eiran Amos Eiran	Director	October 24, 2013
/s/ Fredric Price Fredric Price	Director	October 24, 2013
/s/ Allan Shaw Allan Shaw	Director	October 24, 2013
/s/ Dr. Yuval Cohen Dr. Yuval Cohen	Director	October 24, 2013
/s/ Mark S. Cohen Mark S. Cohen	Authorized United States Representative	October 24, 2013

EXHIBIT INDEX

Exhibit No.	Exhibit Description
2.1*	Celsus Therapeutics PLC, Memorandum of Association
2.2	Celsus Therapeutics PLC, Amended Articles of Association
2.3##	Form of Deposit Agreement among Celsus Therapeutics PLC, Deutsche Bank Trust Company Americas, as Depositary, and all Owners and Holders from time to time of American Depositary Shares issued thereunder
2.4##	Form of American Depositary Receipt; the Form is Exhibit A of the Form of Depositary Agreement
4.1*	Exclusive License Agreement, dated as of November 27, 2002, by and between Celsus Therapeutics, Inc. and Yissum Research Development Company of the Hebrew University of Jerusalem
4.2*	Agreement for the Rendering of Services, dated as of June 20, 2005, by and between Celsus Therapeutics PLC and Yissum Research Development Company of the Hebrew University of Jerusalem
4.3*	Extension Agreement for Rendering of Services, dated as of June 20, 2006, by and between Celsus Therapeutics PLC and Yissum Research Development Company of the Hebrew University of Jerusalem
4.4*	Second Extension Agreement for Rendering of Services, dated as of December 19, 2006, by and between Celsus Therapeutics PLC and Yissum Research Development Company of the Hebrew University of Jerusalem
4.5*	Third Extension Agreement for Rendering of Services, dated as of June 17, 2007, by and between Celsus Therapeutics PLC and Yissum Research Development Company of the Hebrew University of Jerusalem
4.6*	Fourth Extension Agreement for Rendering of Services, dated as of May 6, 2008, by and between Celsus Therapeutics PLC and Yissum Research Development Company of the Hebrew University of Jerusalem
4.7*	Fifth Extension Agreement for Rendering of Services, dated as of February 22, 2011, by and between Celsus Therapeutics PLC and Yissum Research Development Company of the Hebrew University of Jerusalem
4.8**	Director Agreement, dated as of June 16, 2005, between Celsus Therapeutics PLC and Gilead Raday
4.9**	Amendment to Director Agreement, dated as of March 14, 2007, between Celsus Therapeutics PLC and Gilead Raday
4.10**	Chairman Agreement, dated as of February 18, 2005, between Celsus Therapeutics PLC and Mark Cohen
4.11**	Director Agreement, dated as of August 28, 2007, between Celsus Therapeutics PLC and Dr. Johnson Lau
4.12**	Director Agreement, dated as of August 28, 2007, between Celsus Therapeutics PLC and Dr. David Sidransky
4.13**	Director Agreement, dated as of February 21, 2005 between Celsus Therapeutics PLC and Prof. Saul Yedgar
4.14*	Amendment to Director Agreement, dated as of March 14, 2007, between Celsus Therapeutics PLC and Prof. Saul Yedgar
4.15*	Employment Agreement, dated as of June 1, 2007, between Dr. Yuval Cohen and Celsus Therapeutics PLC
4.16*	Amendment to Employment Agreement, dated as of May 10, 2012, between Dr. Yuval Cohen and Celsus Therapeutics PLC
4.17**	Consulting Agreement, dated as of February 21, 2005, between Celsus Therapeutics PLC and Prof. Saul Yedgar
4.18**	Employment Agreement, dated as of May 25, 2011, between Celsus Therapeutics PLC and Prof. Saul Yedgar
4.19**	Consulting Agreement, dated as of June 28, 2007, between Celsus Therapeutics PLC and Dr. Joseph Bondi

4.20**	Amendment to Consulting Agreement, dated as of May 27, 2009, between Celsus Therapeutics PLC and Dr. Joseph Bondi
4.21*	Employment Agreement, dated as of January 11, 2012, between Dov Elefant and Celsus Therapeutics PLC
4.22*	Consulting Agreement, dated as of December 15, 2010, among AGH Associates and Celsus Therapeutics PLC
4.23	Employment Agreement, dated as of October 23, 2013, between Dr. Pablo Jimenez and Celsus Therapeutics PLC
4.24*	Amended and Restated 2007 Stock Option Plan, dated April 26, 2012
4.25*	Second Amendment to Amended and Restated 2007 Stock Option Plan, dated June 20, 2012
4.26**	Securities Purchase Agreement dated April 3, 2012 by and between Celsus Therapeutics PLC and the buyers listed on the Schedule of Buyers
4.27**	Form of April 2012 Warrant
4.28**	Sub-License Agreement dated February 1, 2005
4.29***	Amendment No. 2 to Consulting Agreement, dated as of September 27, 2012, between Celsus Therapeutics PLC and Dr. Joseph Bondi
4.30###	Form of Securities Purchase Agreement dated November 30, 2012 by and among Celsus Therapeutics PLC and the buyers signatory thereto
4.31###	Form of Warrant dated November 30, 2012
4.32###	Registration Rights Agreement dated November 30, 2012 by and among Celsus Therapeutics PLC and the Buyers signatory thereto
4.33#	Form of Securities Purchase Agreement dated January 17, January 31 and February 28, 2013, by and among Celsus Therapeutics PLC and the buyers signatory thereto
4.34#	Form of Series A Warrant dated January 17, January 31 and February 28, 2013
4.35#	Form of Series B Warrant dated January 17, 2013
4.36#	Form of Series C Warrant dated January 17, 2013
4.37#	Form of GSS Warrant dated January 17, January 31 and February 28, 2013
4.38#	Registration Rights Agreement dated January 17, January 31 and February 28, 2013, by and among Celsus Therapeutics PLC and the Buyers signatory thereto
4.39#	Employment Agreement, dated as of March 4, 2013, between Gur Roshwalb, M.D. and Celsus Therapeutics PLC
4.40+	Form of Financing Subscription Agreement between Celsus Therapeutics PLC and Mark Cohen (including Form of Warrant) dated December 30, 2012
4.41+	Form of Financing Subscription Agreement between Celsus Therapeutics PLC and Mark Cohen (including Form of Warrant) dated January 31, 2013
4.42+	Form of Financing Subscription Agreement between Celsus Therapeutics PLC and Saul Yedgar (including Form of Warrant) dated April 3, 2013
4.43++	Form of Securities Purchase Agreement dated September 19, 2013 by and among Celsus Therapeutics PLC and the buyers signatory thereto
4.44++	Form of Registration Rights Agreement dated September 19, 2013 by and among Celsus Therapeutics PLC and the buyers signatory thereto
5.1	Opinion of Fladgate LLP
8.1*	List of subsidiaries
23.1	Consent of registered public accounting firm
23.2	Consent of Fladgate LLP (included in Exhibit 5.1 to this registration statement on Form F-1)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

*	Incorporated herein by reference to such exhibit filed with the registrant's Registration Statement on Form 20-F (No. 000-54749) filed on June 28, 2012.
**	Incorporated herein by reference to such exhibit filed with the registrant's Registration Statement on Form 20-F/A (No. 000-54749) filed on August 8, 2012.
***	Incorporated herein by reference to such exhibit filed with the registrant's Registration Statement on Form 20-F/A (No. 000-54749) filed on September 27, 2012.
##	Incorporated herein by reference to such exhibit filed with the registrant's Registration Statement on Form F-6 (No. 333-185197) filed on November 30, 2012
###	Incorporated herein by reference to such exhibit filed with the registrant's Registration Statement on Form F-1 (No. 333-185247) filed on December 3, 2012.
#	Incorporated herein by reference to such exhibit filed with the registrant's Post-Effective Amendment on Registration Statement on Form F-1 (No. 333-185247) filed on March 22, 2013.
+	Incorporated herein by reference to such exhibit filed with the registrant's Registration Statement on Form F-1 (No. 333-187826) filed on April 10, 2013.
++	Incorporated herein by reference to such exhibit filed with the registrant's Report of Foreign Issuer on Form 6-K filed on September 20, 2013.

CELSUS THERAPEUTICS PLC.
(FORMERLY MORRIA BIOPHARMACEUTICALS PLC.)
(A Development Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2012

U.S. DOLLARS IN THOUSANDS

INDEX

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of

CELSUS THERAPEUTICS PLC.
(FORMERLY MORRIA BIOPHARMACEUTICALS PLC.)
(A Development Stage Company)

We have audited the accompanying consolidated balance sheets of Celsus Therapeutics PLC. (Formerly Morria Biopharmaceuticals Plc.) (a development stage company) (the "Company") and its subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of comprehensive loss, changes in shareholders' deficiency and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's 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 misstatements. We were not engaged to perform an audit of the Company's and its subsidiary internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's and its subsidiary internal control over financial reporting. Accordingly, we express no such opinion. 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 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 consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2012 and 2011, and the consolidated results of their operations and cash flows for each of the three years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States.

Since the date of completion of our audit of the accompanying financial statements and initial issuance of our report thereon dated March 21, 2013, which report contained an explanatory paragraph regarding the Company's ability to continue as a going concern. The Company, as discussed in Note 1(c), has completed an issuance of its Ordinary shares resulting in net proceeds of $11,993 thousand. Therefore, the conditions that raised substantial doubt about whether the Company will continue as a going concern no longer exist.

Tel-Aviv, Israel
March 21, 2013
Except for Note 1(c) to which the date is
October 24, 2013

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

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31,	
	2012	**2011**
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,104	$ 6
Accounts receivable and prepaid expenses	14	21
Total current assets	1,118	27
PROPERTY AND EQUIPMENT, NET	2	-
Total assets	$ 1,120	$ 27

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

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands (except share and per share data)

	December 31,	
	2012	**2011**
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
CURRENT LIABILITIES:		
Trade payables	$ 1,697	$ 1,379
Other accounts payable	1,255	857
Short-term convertible notes	898	-
Total current liabilities	3,850	2,236
LONG-TERM LIABILITIES:		
Deferred shares	-	216
Liability related to stock options and warrants	630	60
Total long-term liabilities	630	276
SHAREHOLDERS' DEFICIENCY:		
Ordinary shares of £ 0.01 par value - Authorized: 49,800,000 shares at December 31, 2012 and 2011; Issued and outstanding: 13,369,809 and 12,098,597 shares at December 31, 2012 and 2011, respectively	245	225
Additional paid-in capital	13,199	9,836
Receipts on account of shares	118	75
Deficit accumulated during the development stage	(16,922)	(12,621)
Total shareholders' deficiency	(3,360)	(2,485)
Total liabilities and shareholders' deficiency	$ 1,120	$ 27

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

U.S. dollars in thousands (except share and per share data)

	Year ended December 31,			Period from October 7, 2004 (date of inception) to December 31,
	2012	2011	2010	2012
				(Unaudited)
Research and development expenses, net	$ 1,483	$ 841	$ 247	$ 5,840
General and administrative expenses	2,184	1,406	545	7,839
Operating loss	3,667	2,247	792	13,679
Financial expense (income), net	601	(128)	(117)	3,210
Net loss	$ 4,268	$ 2,119	$ 675	$ 16,889
Deemed dividend related to warrants modification	33	-	-	33
Net loss attributable to holders of ordinary shares	$ 4,301	$ 2,119	$ 675	$ 16,922
Net basic and diluted loss per share	$ (0.35)	$ (0.18)	$ (0.06)	
Weighted average number of ordinary shares used in computing basic and diluted net loss per share	12,458,874	11,920,562	11,420,369	

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY

U.S. dollars in thousands (except share and per share data)

	Ordinary shares		Additional paid in capital	Receipts on account shares	Deficit accumulated during the development stage	Total
	Number	Amount				
Balance as of October 7, 2004 (date of inception)	-	$ -	$ -	$ -	$ -	$ -
Issuance of shares ($ 0.02-$ 1.13 per share)	9,977,700	187	3,406	-	-	3,593
Share based compensation	-	-	119	-	-	119
Net loss	-	-	-	-	(2,479)	(2,479)
Balance as of December 31, 2005 (unaudited)	9,977,700	187	3,525	-	(2,479)	1,233
Share based compensation	-	-	69	-	-	69
Net loss	-	-	-	-	(1,769)	(1,769)
Balance as of December 31, 2006 (unaudited)	9,977,700	187	3,594	-	(4,248)	(467)
Waiver of related party shares	(1,070,000)	(22)	22	-	-	*) -
Issuance of share capital, net ($ 1.58 per share)	2,000,000	40	3,051	-	-	3,091
Share based compensation	-	-	448	-	-	448
Net loss	-	-	-	-	(3,132)	(3,132)
Balance as of December 31, 2007 (unaudited)	10,907,700	205	7,115	-	(7,380)	(60)
Issuance of share capital, net ($ 1.58-$ 1.59 per share)	42,996	1	68	-	-	69
Share based compensation	-	-	168	-	-	168
Net loss	-	-	-	-	(1,435)	(1,435)
Balance as of December 31, 2008 (unaudited)	10,950,696	206	7,351	-	(8,815)	(1,258)
Issuance of share capital, net ($ 1.16-$ 1.32 per share)	410,097	7	492	-	-	499
Share based compensation	-	-	70	-	-	70
Net loss	-	-	-	-	(1,012)	(1,012)
Balance as of December 31, 2009	11,360,793	213	7,913	-	(9,827)	(1,701)

*) Represents an amount lower than $ 1.

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY

U.S. dollars in thousands (except share and per share data)

	Ordinary shares		Additional paid in capital	Receipts on account shares	Deficit accumulated during the development stage	Total
	Number	Amount				
Balance as of December 31, 2009	11,360,793	213	7,913	-	(9,827)	(1,701)
Issuance of share capital, net ($ 1.43-$ 1.57 per share)	200,778	3	309	-	-	312
Receipt on account of shares	-	-	-	60	-	60
Net loss	-	-	-	-	(675)	(675)
Balance as of December 31, 2010	11,561,571	216	8,222	60	(10,502)	(2,004)
					-	-
Issuance of share capital, net ($ 1.63-$ 1.95 per share)	522,026	9	981	(60)	-	930
Exercise of stock options	15,000	*) -	-	-	-	*) -
Share based compensation	-	-	140	-	-	140
Receipts on account of shares	-	-	-	75	-	75
Expiration of deferred shares and liability related to stock options	-	-	420	-	-	420
Directors fee waiver	-	-	73	-	-	73
Net loss	-	-	-	-	(2,119)	(2,119)
Balance as of December 31, 2011	12,098,597	225	9,836	75	(12,621)	(2,485)
Issuance of share capital, net ($ 1.32-$ 1.94 per share)	1,254,933	20	1,992	(75)	-	1,937
Share based compensation	-	-	450	-	-	450
Issuance of shares granted to service provider	16,279	*) -	25	-	-	25
Expiration of deferred shares	-	-	128	-	-	128
Classification of warrants from liability to equity as a result of modification	-	-	35	-	-	35
Classification of warrants from liability to equity as a result of expiration of most favored nation terms	-	-	141	-	-	141
Conversion of trade payables into warrants	-	-	309	-	-	309
Beneficial conversion feature related to convertible notes	-	-	250	-	-	250
Receipts on account of shares				118		118
Deemed dividend related to warrants' modification	-	-	33	-	(33)	-
Net loss	-	-	-	-	(4,268)	(4,268)
Balance as of December 31, 2012	13,369,809	$ 245	$ 13,199	$ 118	$ (16,922)	$ (3,360)

*) Represents an amount lower than $ 1.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,			Period from October 7, 2004 (date of inception) to December 31,
	2012	2011	2010	2012
				(Unaudited)
Cash flows from operating activities:				
Net loss	$ (4,268)	$ (2,119)	$ (675)	$ (16,889)
Adjustments to reconcile net loss to net cash used in operating activities:				
Share based compensation and issuance of shares granted to service provider	514	140	-	1,528
Depreciation	2	-	-	11
Changes in values of deferred shares and liability related to stock options and warrants	(418)	(120)	(95)	278
Decrease (increase) in accounts receivable and prepaid expenses	7	4	(14)	(14)
Increase in trade payables	627	612	237	2,006
Increase in other accounts payable	394	475	181	1,324
Accrued interest expenses and issuance costs	1,008	-	-	1,008
Net cash used in operating activities	(2,134)	(1,008)	(366)	(10,748)
Cash flows from investing activities:				
Purchase of property and equipment	-	-	-	(9)
Net cash used in investing activities	-	-	-	(9)
Cash flows from financing activities:				
Proceeds from issuance of shares and warrants, net	2,224	930	312	10,718
Proceeds from issuance of convertible notes and warrants, net	890	-	-	890
Receipts on account of shares	118	75	60	253
Net cash provided by financing activities	3,232	1,005	372	11,861
Increase (decrease) in cash and cash equivalents	1,098	(3)	6	1,104
Cash and cash equivalents at the beginning of the period	6	9	3	-
Cash and cash equivalents at the end of the period	$ 1,104	$ 6	$ 9	$ 1,104
Supplemental disclosure of non-cash investing and financing activities:				
Expiration of deferred shares	$ 128	$ 420	$ -	$ 548
Director fee waiver	$ -	$ 73	$ -	$ 73
Classification of warrants from liability to equity as a result of modification	$ 35			$ 35
Classification of warrants from liability to equity as a result of expiration of most favored nation terms	$ 141			$ 141
Purchase of property and equipment	$ 4	$ -	$ -	$ 4
Conversion of trade payables into warrants	$ 309			$ 309

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share and per share data)

NOTE 1:- GENERAL

a. Celsus Therapeutics PLC. (Formerly Morria Biopharmaceuticals Plc.) (the "Company") (a development stage company) was incorporated in Great Britain as a private limited company and commenced business operations on October 7, 2004. On February 15, 2005 the Company was registered as a non-traded public company under the laws of England and Wales.

On March 5, 2013, the Company changed its trade name to Celsus Therapeutics Plc. and intends to change its corporate name to Celsus Therapeutics Plc upon shareholder approval at its annual general meeting scheduled in June 2013.

The Company is engaged in the development of ethical synthetic drugs for the treatment of severe chronic inflammatory conditions such as contact dermatitis, allergic rhinitis, etc.

b. On March 22, 2011 the Company established an Israeli subsidiary, Morria Biopharma Ltd., which is wholly-owned by the Company. As of the date of the financial statements, this Israeli subsidiary is inactive.

c. As of December 31, 2012, the Company has accumulated losses in the total amount of $ 16,899 and has negative cash flow from operating activity in 2012 in the total amount of $ 2,134.

Subsequent to the balance sheet date, the Company obtained additional equity investment in the amount of $ 1,277 in consideration for the issuance of ordinary shares and warrants, as described in more detail in Note 14.

On September 19, 2013 the Company entered into a Securities Purchase Agreement with certain institutional accredited investors , pursuant to which the Company sold, in a private placement, an aggregate of 21,958,302 ordinary shares for an aggregate purchase price of $12,516. The closing of the Offering occurred on September 24, 2013 (the “Closing Date”). Therefore, the conditions that raised substantial doubt about whether the Company will continue as a going concern no longer exists.

There are no assurances that the Company will be successful in obtaining an adequate level of financing needed for its long-term research and development activities. If the Company will not have sufficient liquidity resources, the Company may not be able to continue the development of all of its products or may be required to delay part of the development programs.

The Company's inability to raise funds to carry its research and development activities will have severe negative impact on its ability to remain a viable company beyond March 31, 2015. The Company is addressing its liquidity issues by implementing initiatives to raise additional funds as well as other measure that will allow the coverage of its anticipated budget deficit.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share and per share data)

NOTE 1:- GENERAL (Cont.)

d. On January 28, 2005 the Company acquired Morria Biopharmaceuticals Inc. (the "Subsidiary"). The Subsidiary was the owner of the intellectual property rights in drugs which it develops under a license that was granted by Yissum, the research development company of the Hebrew University of Jerusalem Israel ("Yissum") on November 27, 2002, and in connection with which a sublicense agreement was signed between the Subsidiary and the Company on February 1, 2005 (for details about the license agreement and the sublicense agreement see Note 8).

e. The Company depends on third-party suppliers for the raw materials required for the production of its product candidates, which supplies phospholipids and hyaluronic acid. The Company also does not have the ability to independently conduct clinical trials for its product candidates, and it relies on third parties, such as contract research organizations (primarily Target Health, Inc), medical institutions, and clinical investigators to perform this function.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements were prepared in accordance with United States Generally Accepted Accounting Principles ("U.S. GAAP").

a. Use of estimates:

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions. The Company's management believes that the estimates, judgments and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

b. Financial statements in United States dollars:

Most of the Company's costs and financing are in U.S. dollars. The Company's management believes that the dollar is the currency of the primary economic environment in which the Company and its subsidiaries have operated and expect to continue to operate in the foreseeable future. Therefore, the functional currency of the Company and its subsidiaries is the Dollar.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company and its subsidiaries' transactions and balances denominated in Dollars are presented at their original amounts. Non-Dollar transactions and balances have been remeasured to Dollars in accordance with ASC 830, "Foreign Currency Matters". All transaction gains and losses from remeasurement of monetary balance sheet items denominated in non-dollar currencies are reflected in the statements of income as financial income or expenses, as appropriate.

c. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany transactions and balances have been eliminated upon consolidation

d. Cash equivalents:

Cash equivalents are short-term unrestricted highly liquid investments that are readily convertible into cash, with original maturities of three months or less at acquisition.

e. Property and equipment, net:

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets at the following annual rates:

	%
Computers, peripheral and scientific equipment	33
Office furniture and equipment	25

f. Impairment of long-lived assets:

The Company's long-lived assets are reviewed for impairment in accordance with ASC 360, "Property, Plant, and Equipment," whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. During the years ended December 31, 2012, 2011 and 2010, no impairment losses have been identified.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. Research and development costs:

Research and development expenses, net of grants received, consist of independent research and development costs of third parties services and license fees to third parties. All such costs are expensed as incurred. There were no grants received during the years ended December 31, 2012, 2011 and 2010.

h. Income taxes:

The Company accounts for income taxes in accordance with ASC 740, "Income Taxes". This topic prescribes the use of the liability method whereby deferred tax assets and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to the amount that is more likely than not to be realized.

The Company implements a two-step approach to recognize and measure uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% (cumulative basis) likely to be realized upon ultimate settlement. As of December 31, 2012, 2011 and 2010, the Company does not hold provision for uncertain tax positions.

i. Concentrations of credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents.

The Company's cash and cash equivalents are invested in deposits mainly in U.S. dollars and British Pound with major international banks. Generally, these deposits may be redeemed upon demand and therefore bear minimal risk.

j. Basic and diluted net loss per share:

Basic net loss per share is computed based on the weighted average number of Ordinary shares outstanding during each year. Diluted net loss per share is computed based on the weighted average number of Ordinary shares outstanding during each year plus dilutive potential equivalent Ordinary shares considered outstanding during the year, in accordance with ASC 260, "Earnings per Share."

U.S. dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

All outstanding stock options, deferred shares and warrants have been excluded from the calculation of the diluted net loss per share because all such securities are anti-dilutive for all periods presented. The total number of shares related to outstanding stock options excluded from the calculations of diluted net loss per share was 823,990, 411,002 and 426,002 for the years ended December 31, 2012, 2011 and 2010, respectively. The total number of shares related to conversion rights of the deferred shares excluded from the calculations of diluted net loss per share was 180,822, 479,166 and 1,033,333 for the years ended December 31, 2012, 2011 and 2010, respectively. As of June 13, 2012 all of the deferred shares were expired. The total number of shares related to warrants excluded from the calculations of diluted net loss per share was 2,053,817 for the year ended December 31, 2012. The total number of shares related to convertible notes excluded from the calculations of diluted net loss per share was 670,732 for the year ended December 31, 2012.

k. Accounting for stock-based compensation:

The Company accounts for stock-based compensation in accordance with ASC 718, "Compensation - Stock Compensation," which requires the measurement and recognition of compensation expense based on estimated fair values for all share-based payment awards made to employees, directors and non-employees. ASC 718 requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's consolidated statement of comprehensive loss.

The Company recognizes compensation expenses for the value of its awards granted based on the straight-line method over the requisite service period of each of the awards, net of estimated forfeitures. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Estimated forfeitures are based on actual historical pre-vesting forfeitures.

The Company selected the Black-Scholes-Merton ("Black-Scholes") option-pricing model as the most appropriate fair value method for the majority of its stock-options awards and values stock based on the market value of the underlying shares at the date of grant. For employees' awards, the option-pricing model requires a number of assumptions as noted below:

	December 31,		
	2012	**2011**	**2010**
Risk-free interest rate	0.69%-0.74%	1.85%	-
Expected volatility	89.99%	85.75%	-
Expected life (in years)	5.0	2.97	-
Expected dividend yield	0%	0%	-

U.S. dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

For non - employees awards, the option-pricing model requires a number of assumptions as noted below:

	December 31,		
	2012	**2011**	**2010**
Risk-free interest rate	0.70%-1.78%	0.34%-3.52%	0.46%-3.23%
Expected volatility	78.9%-89.0%	51.1%-87.7%	44.6%-105.2%
Expected life (in years)	4.5-10.0	0.5-8.1	0.3-8.4
Expected dividend yield	0%	0%	0%

The computation of expected volatility is based on realized historical stock price volatility of peer companies. The expected term of options granted is based on the "Simplified" method acceptable by ASC 718. For non-employees the expected term assumption is based on the contractual term. The risk free interest rate assumption is the implied yield currently available on British government bond and the U.S Treasury yield zero-coupon issues with a remaining term equal to the expected life of the Company's options. The dividend yield assumption is based on the Company's historical experience and expectation of no future dividend payouts. The Company has historically not paid cash dividends and has no foreseeable plans to pay cash dividends in the future.

The fair value of the ordinary shares underlying the options, warrants and deferred shares until December 31, 2011, had been determined by the Company's management, based on the share price used in the equity financing rounds. Since December 31, 2011 the Company issued only units of shares and warrants to new investors (see also Note 9 and 14). In order to determine the fair value of the ordinary shares since December 31, 2011, management used the assistance of an independent valuation firm. The Company applied the market approach taking into account actual equity transactions. Since the equity transactions included warrant coverage, the Company isolated the value of the common share by subtracting the value of the warrants through performing a circular iteration in the Black Scholes option-pricing model. Because there has been no public market for the Company's ordinary shares, management has determined fair value of the ordinary shares at the time of grant of options by considering a number of objective and subjective factors, including valuation of warrants issued by the Company. The fair value of the underlying ordinary shares shall be determined by management until such time as the Company's ordinary share is traded on an established stock exchange or national market system.

The Company applies ASC 718 and ASC 505-50, "Equity-Based Payments to Non-Employees" with respect to options, warrants and deferred shares issued to non-employees. ASC 718 requires the use of option valuation models to measure the fair value of the options, warrants and deferred shares at the measurement date. Therefore, since the exercise price of some of the options, warrants and deferred shares is denominated in a currency that is different from the Company's functional currency, the Company accounts for such options and warrants as a liability.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

l. Fair value of financial instruments:

The estimated fair value of financial instruments has been determined by the Company using available market information and valuation methodologies. Considerable judgment is required in estimating fair values. Accordingly, the estimates may not be indicative of the amounts the Company could realize in a current market exchange.

The carrying amounts of cash and cash equivalents, accounts receivable and prepaid expenses, trade payables and other accounts payable approximate their fair value due to the short-term maturity of such instruments.

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, ASC 820, "Fair Value Measurements and Disclosures" establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 - quoted prices in active markets for identical assets or liabilities;

Level 2 - inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or

Level 3 - unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

m. Derivative instruments:

As of balance sheet date, none of the Company's derivatives qualify for hedge accounting under ASC 815, "Derivatives and Hedging" ("ASC 815"). As a result all derivatives are recognized on the balance sheet at their fair value, with changes in the fair value carried to the statement of comprehensive loss and included in financial income or expenses.

During the years ended December 31, 2012, 2011 and 2010, the Company recorded a net gain from derivatives transactions in the amount of $ 419, $ 120 and $ 95, respectively.

U.S. dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

n. Convertible notes:

The Company applies ASC 470-20, "Debt with Conversion and Other Options" ("ASC 470-20"). In accordance with ASC 470-20, the Company first allocates the proceeds received to the detachable warrant, freestanding liability instrument that is measured at fair value at each reporting date, based on its fair value, with changes in the fair values being recognized in the Company's statement of comprehensive loss as financial income or expense. The remaining proceeds are allocated to the convertible note. The Company also recognized an embedded beneficial conversion feature on the commitment date. The beneficial conversion feature was measured by allocating a portion of the proceeds equal to the intrinsic value of the feature to additional paid-in-capital. The intrinsic value of the feature was calculated on the commitment date using the effective conversion price which had resulted subsequent to the allocation of the proceeds between the convertible notes and warrants.

The discount on the convertible notes is amortized according to the effective interest rate method over the life of the convertible notes.

o. Recently issued accounting standards:

In February 2013, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2013-02, Topic 350 - Comprehensive Income ("ASU 2013-02"), which amends Topic 220 to improve the reporting of reclassifications out of accumulated other comprehensive income to the respective line items in net income. ASU 2013-02 is effective for reporting periods beginning after December 15, 2012. The Company intends to adopt this standard in the first quarter of 2013 and does not expect the adoption will have a material impact on its consolidated results of operations or financial condition.

NOTE 3:- PROPERTY AND EQUIPMENT

	December 31,	
	2012	**2011**
Cost:		
Computers, peripheral and scientific equipment	$ 12	$ 8
Office furniture and equipment	1	1
	13	9
Accumulated depreciation:		
Computers, peripheral and scientific equipment	(10)	(8)
Office furniture and equipment	(1)	(1)
Depreciated cost	$ 2	$ -

The depreciation expense for the year ended December 31, 2012 was $ 2. There were no depreciation expenses for the years ended December 31, 2011 and 2010.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share and per share data)

NOTE 4:- ACCOUNTS RECEIVABLE

	December 31,	
	2012	2011
Institutions	$ 12	$ 19
Prepaid expenses	2	2
	$ 14	$ 21

NOTE 5:- OTHER ACCOUNTS PAYABLE

	December 31,	
	2012	2011
Accrued expenses	$ 896	$ 598
Employees and institutions	359	259
	$ 1,255	$ 857

NOTE 6:- DEFERRED SHARES

The holders of deferred shares shall not have any right other than the right to convert such shares into ordinary shares of £0.01 par value each upon the aforementioned events.

In February 2005, the Company received a bridge loan from Capital Managers LLP ("CSS") (that was repaid in the course of 2005) in an amount of £200 thousand. In exchange for the loan, the Company issued to CSS 800,000 Ordinary shares of £0.01 par value each at a price of £1 per share and 400,000 Deferred A shares. The Deferred A shares entitle CSS the right to purchase 400,000 Ordinary shares, of £0.01 par value each, of the Company in one of the following: (i) during a period of 5 years, (ii) as part of a sale event involving the sale of all the Company's shares or (iii) upon the listing of the Company's shares for trade. The exercise price for a Deferred A share is £0.249.

In February 2006, the Company issued 633,333 Deferred B shares of £0.001 par value each to CSS, for serving as broker for funds raisings. The Deferred B shares give CSS the right to purchase 633,333 Ordinary shares, of £0.01 par value each, of the Company in one of the following: (i) during a period of 5.25 years, (ii) as part of a sale event involving the sale of all the Company's shares or (iii) upon the listing of the Company's shares for trade. The exercise price for a Deferred B share is £0.59. As of December 31, 2011, the Deferred B shares have expired. The fair value of the Deferred B shares on the date of expiration in the amount of $ 394 was recorded to additional paid-in capital.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share and per share data)

NOTE 6:- DEFERRED SHARES (Cont.)

In June 2007, the Company issued 400,000 Deferred C shares of £ 0.001 par value each to Capital Management LLP ("CSS"), for serving as broker for fund raisings. The Deferred C shares entitle CSS the right to purchase 400,000 Ordinary shares, of £ 0.01 par value each, of the Company in one of the following: (i) during a period of 5 years, (ii) as part of a sale event involving the sale of all the Company's shares or (iii) upon the listing of the Company's shares for trade. The exercise price for a Deferred C share is £ 0.79.

As part of the issuance of Deferred C Shares, the Company repurchased 400,000 Deferred A shares of £0.001 par value each that were issued in 2005. The Deferred A shares were acquired at par value.

The Company accounted for the deferred shares in accordance with ASC 718 and ASC 505-50. Since the exercise price of such deferred shares was denominated in a currency that is different from the Company's functional currency, the Company accounted for such deferred shares as a liability. The fair value of the deferred shares was estimated each cut-off date using the Black-Scholes options valuation model. The changes in fair value were recorded as financial expense (income).

During the years ended December 31, 2012, 2011 and 2010 the Company recorded financial income related to revaluation of deferred shares in the amount of $ 88, $ 120 and $ 102.

As of June 13, 2012, the Deferred C shares have expired. The fair value of the Deferred C shares on the date of expiration in the amount of $ 128 was recorded to additional paid-in capital.

NOTE 7:- SHORT-TERM CONVERTIBLE NOTES

On April 4, 2012, the Company completed a private placement under a Securities Purchase Agreement, dated April 3, 2012 (the "Purchase Agreement"), by and among the Company and certain institutional accredited investors (the "Financing"). As part of the Financing, the Company sold an aggregate of $ 1,100 principal amount of convertible notes (the "Notes") and warrants to purchase an aggregate of 643,274 ordinary shares (the "Warrants"), for a total consideration of $ 1,000 . The related issuance expenses were $ 110.

Each Note was convertible into shares at an initial conversion price of $ 1.71 per ordinary share. The conversion price of each Note is subject to standard anti-dilution adjustments. The conversion price is also subject to "full ratchet" anti-dilution adjustment, which would decrease the conversion price to equal the price at which the Company issues ordinary shares, to the extent that the issuance price or the deemed issuance price is less than the then-effective conversion price. The convertibility of each Note may be limited if, upon conversion, the holder thereof would beneficially own more than 4.9% of the Company's ordinary shares. The Notes have a maturity date of January 4, 2013 and do not bear interest and can be converted at anytime through the maturity date. The Notes are guaranteed by the subsidiaries and are secured on a first-priority basis by substantially all of the Company's assets, including the license agreement with Yissum and the co-owned patents.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share and per share data)

NOTE 7:- SHORT-TERM CONVERTIBLE NOTES (Cont.)

Under the Purchase Agreement, the Company was required to file a registration statement pursuant to Section 12 of the Securities Exchange Act of 1934, as amended, on Form 20-F, no later than July 4, 2012 and have such Form 20-F declared effective no later than January 4, 2013 (the earlier of such date and the actual date on which the Form 20-F is declared effective, (the "Self Filing Effective Date"). As required, by July 4, 2012 the Form 20-F was filed and until January 4, 2013 was declared effective.

In the Financing, the Company also entered into a registration rights agreement ("Registration Rights Agreement") with the investors pursuant to which the Company agrees to register the resale of up to 133% of the number of ordinary shares that may be acquired by the investors by converting the Notes and exercising their Warrants.

The Notes contain various covenants, including covenants restricting the Company's ability to incur additional indebtedness, incur additional liens, make certain restricted payments or dividend payments, or transfer assets. As of December 31, 2012 the Company did not default any of the covenants.

As part of the Financing, the Company issued to the investors warrants (the "Warrants") to purchase an aggregate of 643,274 ordinary shares. The Warrants had an initial exercise price of $ 1.71 per share, exercisable for a term of 5 years, subject to adjustment. On and after April 4, 2013, if a registration statement registering the ordinary shares underlying the Warrants is not effective, the holders of the Warrants may exercise their Warrants on a cashless basis.

The exercise price of the Warrants is subject to standard anti-dilution adjustments. In addition, the exercise price is also subject to "full ratchet" anti-dilution adjustment, similar to the Notes. To the extent the Company enters into a fundamental transaction (as defined in the Warrants and which includes, without limitation, entering into a merger or consolidation with another entity, selling all or substantially all of the assets, or a person acquiring 50% of the Company's voting shares), the holders will have the option to require the Company to repurchase the Warrants from the investor at its Black-Scholes fair value. Consequently, the Company accounts for the Warrants as a liability according to the provisions of ASC 815, "Derivatives and Hedging - Contracts in Entity's Own Equity" ("ASC 815").

In connection with the August Financing (as defined in Note 9b), the conversion price of the Notes and the exercise price of the Warrants was reduced to $ 1.64 and the number of Warrants was increased to 670,732 pursuant to the anti-dilution adjustments.

The Company applies ASC 470-20, "Debt with Conversion and Other Options" ("ASC 470-20"). In accordance with ASC 470-20, the Company first allocated the proceeds received to the detachable warrant, freestanding liability instrument that is measured at fair value at each reporting date, based on its fair value, with changes in the fair values being recognized in the Company's statement of comprehensive loss as financial income or expense. The fair value of Warrants granted was valued by using the Black-Scholes call option pricing model. The anti-dilution rights of the Warrants were calculated by using Black-Scholes put option model using the same parameters as the warrants call option. Fair values were estimated using the following assumptions (annualized percentages):

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share and per share data)

NOTE 7:- SHORT-TERM CONVERTIBLE NOTES (Cont.)

	December 31, 2012	April 4, 2012
Dividend yield	0%	0%
Expected volatility	79.61%	70.4%
Risk-free interest	0.16%	0.31%
Expected life	1.08 years	1.7 years
Forfeiture rate	0%	0%

The initial fair value of the detachable warrant on April 4, 2012 was $ 750. On December 31, 2012, the fair value of the detachable warrant was $ 402. The change in fair value in the amount of $ 348 was recorded as financial income in the Company's statement of comprehensive loss.

The conversion feature is not defined as a derivative instrument according to ASC 815, since the Company's shares were not traded on the commitment date. The Company recorded the embedded beneficial conversion feature on the commitment date, in accordance with the guidelines of ASC 470-20. The beneficial conversion feature was measured by allocating a portion of the proceeds equal to the intrinsic value of the feature to additional paid-in-capital. The intrinsic value of the feature was calculated on the commitment date using the effective conversion price which had resulted subsequent to the allocation of the proceeds between the Notes and warrants. On the commitment date, the Company recorded a beneficial conversion feature, in accordance with Statement of Accounting Standard Codification No. 470-20, in the amount of $ 250.

The discount on the Notes is amortized according to the effective interest rate method over the life of the Notes. During the year ended December 31, 2012, the Company recorded $ 898 financial expenses in respect to the amortization of the discount of the Notes.

The issuance expenses that are allocated to the Warrants are recorded as financial expenses and the issuance expenses that are allocated to the Notes are capitalized and reported as deferred financing costs. The deferred financing cost is amortized over the life of the Notes using the effective interest rate. Since the issuance expenses that were allocated to the Notes were insignificant, all of the issuance expenses in the amount of $ 110 were recorded as financial expenses.

The composition of the short term convertible notes as of December 31, 2012 is as follows:

	December 31, 2012 Unaudited
Principal	1,100
Discount	(202)
Short-term convertible notes	898

On January 2, 2013, the Company repaid the Notes in the amount of $ 1,100.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share and per share data)

NOTE 8:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Agreement with Yissum:

On November 27, 2002, the Subsidiary executed a license agreement with Yissum, pursuant to which the Subsidiary was granted a global, exclusive license, including the right to grant sublicenses, subject to receipt of the prior written approval of Yissum which shall not be unreasonably withheld. The full intellectual property rights concerning the technology subject to the license are and will remain fully owned by Yissum for the licensed technology developed by Yissum.

This technology underlies part of the Company's research and development projects. The license includes the exclusive rights to produce, sell, market, import, distribute, and make any use of the technology, by both the Subsidiary and the holders of rights by virtue of the sublicenses. The agreement is valid for 20 years or until the last to expire patent. In exchange for granting the said license to the Subsidiary, Yissum will be entitled to royalties as elaborated below:

1. 4% of the total sales that the Subsidiary or a related company thereof (as this term is defined in the agreement) will make;

2. 18% of the total payments or royalties that Subsidiary will be entitled to receive from third parties to whom sublicenses have been granted.

On June 20, 2005, the Company executed with Yissum an agreement for providing research and development services, whereby Yissum grants the Company compound development services. It has been agreed that the intellectual property and the knowledge that will accumulate during the provision of the services will be owned by Yissum. Yissum has granted the Company a license to use the results of the service provision agreement, and the permission to grant a sublicense. The service agreement was renewed several times prior to 2011. On February 28, 2011, the service provision agreement was

renewed again. In consideration for the performance of services the Company agreed to pay Yissum $ 70 plus overhead per year, depending on the work requested by the Company to be done at the sole and exclusive option of the Company during each year of the following five years. The additional services fees shall be payable in semi-annual payments.

b. Office lease commitment:

The Company's registered address is located in Great Britain with minimum rental commitments of $ 0.5 plus VAT for each month. The Agreement commenced on February 1, 2010, and shall continue until it is terminated by either party giving the other three months' prior written notice. The Company's liability as of December 31, 2012 is approximately $ 1.5, to be paid during 2013.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share and per share data)

NOTE 9:- SHAREHOLDERS' EQUITY

a. Composition of share capital:

	December 31, 2012		December 31, 2011	
	Authorized	Issued and outstanding	Authorized	Issued and outstanding
Ordinary shares of £0.01 par value each	49,800,000	13,369,809	49,800,000	12,098,597
Deferred A shares of £0.001 par value	800,000	-	800,000	-
Deferred B shares of £0.001 par value	1,200,000	-	1,200,000	-
Deferred C shares of £0.001 par value	400,000	-	400,000	400,000

The Ordinary shares confer upon their holders the right to participate and vote in general shareholders meetings of the Company and to share in the distribution of dividends, if any, declared by the Company.

As for the deferred shares see Note 6.

b. Shares and warrants issuances:

Since inception through December 31, 2008, the Company issued 10,950,696 ordinary shares of £0.01 par value each. The total proceeds amounted to $ 6,753 (unaudited).

During January to October 2009, the Company issued 410,097 ordinary shares of £0.01 par value each at £0.8 per share. The proceeds amounted to $ 522. The related issuance costs amounted to $ 23.

During May to August 2010, the Company issued 200,778 Ordinary shares of £0.01 par value each at £1 per share. The proceeds amounted to $ 312.

During March to August 2011, the Company issued 522,026 Ordinary shares of £0.01 par value each, in consideration for $ 951, at prices of $ 1.63-$ 1.95 per share, net of $ 60 included in receipt on account of shares as of January 1, 2011. The related issuance costs amounted to $ 21.

In the months January through August 2012, the Company issued 242,500 of ordinary shares, £ 0.01 par value each, at a price of $ 2.00 per share, for total gross proceeds of approximately $ 485, net of $ 75 included in receipt on the account of shares as of January 1, 2012. The investors were also granted with warrants to purchase 261,731 ordinary shares, at an exercise price of $ 2.00. In June 2012, the Company issued 10,000 of ordinary shares, £ 0.01 par value each, at a price of $ 2.25 per share, for total gross proceeds of approximately $ 23. This financing round was furnished with 50% warrant coverage, to purchase 5,000 ordinary shares of the Company, at an exercise price of $ 2.25.

NOTE 9:- SHAREHOLDERS' EQUITY (Cont.)

In April 2012, the Company modified 39,500 warrants that were issued to investors in January 2012 with an exercise price of $ 1 to a total of 79,000 warrants with an exercise price of $ 2. The Company accounted for these changes as modifications in accordance with ASC 718. The Company calculated the incremental value of these modifications and recorded deemed dividend in a total amount of $ 33 to additional paid-in capital.

In August 2012, the Company issued 232,558 ordinary shares, £ 0.01 par value each, at a price of $ 1.72 per share, for total gross proceeds of $ 400. This financing round was furnished with 100% warrant coverage, to purchase 232,558 ordinary shares of the Company, at an exercise price of $ 1.72 and contractual life of five years (the "August Financing"). In addition, in August and September, the Company issued 18,375 of ordinary shares, £0.01 par value each, at a price of $ 2.00 per share, for total gross proceeds of $ 37. This financing round was furnished with 100% warrant coverage, to purchase 18,375 ordinary shares of the Company, at an exercise price of $ 2.00 per share and contractual life of five years. If the Company contemplates a private placement of ordinary shares and warrants with an aggregate offering amount which is no greater than $ 20,000 or in any other private placement that occurs prior to December 1, 2012 (the "Private Placement"), in which the equity price and equity linked pricing terms are more favorable to the investors, the Company will modify the terms to reflect any more favorable pricing terms provided to the other investors in the Private Placement on a $ 1 for $ 1 basis, in lieu of cash consideration. (the "Most Favored Nation").

On November 30, 2012, the Company completed a private placement under the November Purchase Agreement (the " November Purchase Agreement"), by and among the Company and certain investors (the "November Financing"). As part of the November Financing, the Company sold an aggregate of 751,500 Ordinary Shares at $ 2.00 per share for gross proceeds of $ 1,503 (the "November Shares") and 375,750 warrants to purchase an aggregate of 375,750 Ordinary Shares (the "November's Warrants").

Under the November Financing, the Company also entered into the November Registration Rights Agreement with the investors pursuant to which the Company is required to file a registration statement to register the resale of up to 133% of the number of Ordinary Shares issued in the November Financing and that may be issued upon exercise of the November's Warrants. The Company agreed to file a registration statement no later than 30 days after January 3, 2013 and to have the registration statement declared effective no later than the earlier of (a) the 90th day after the Self Filing Effective Date (or 120 days if the registration statement is reviewed by the SEC) or (b) the third day after the Company is notified that the registration statement will not be reviewed or is no longer subject to review. In February 2013, the registration statement was declared effective.

As part of the November Financing, the Company issued to the investors the November's Warrants to purchase Ordinary Shares at an initial exercise price of $ 2.00 per share, exercisable for a term of five years. The exercise price is subject to standard anti-dilution adjustments.

NOTE 9:- SHAREHOLDERS' EQUITY (Cont.)

In addition, under the terms of the November Purchase Agreement, from the date each investor entered into the November Purchase Agreement until the earlier of (i) the six month anniversary of the effective date of a registration statement or (ii) the date immediately following the 20 consecutive trading days wherein the trading volume for the Ordinary Shares or ADSs exceeds $ 100 per trading day, each investor may elect to exchange all of its shares and warrants for any such additional securities issued by the Company in a subsequent financing (as defined in the November Purchase Agreement), on the same terms and conditions as provided to the investors in a subsequent financing on a $ 1 for $ 1 basis, in lieu of cash consideration (the "November Most Favored Nation").

Due to the November Most Favored Nation terms, the most favored nation terms for the investors in the November Financing were extended to 2 years and the investors also received warrants with a January Down Round Protection (as defined in note 14b) in January 2013. (See Note 14b)

In relation to the issuances of August Financing through November Financing, the Company first allocated the proceeds to the detachable warrant, that due to the most favored nation terms and in accordance with ASC 815 is being considered a freestanding liability instrument that is measured at fair value at each reporting date, based on its fair value, with changes in the fair values being recognized in the Company's statement of comprehensive loss as financial income or expense. The remaining proceeds were allocated to the shares and were recorded to equity. The issuance costs in relation to the November Financing in the amount of $ 190 (the "2012 Issuance Costs") were allocated between the warrants and the shares in proportion to the allocation of the proceeds. The portion of the 2012 Issuance Costs that were allocated to the warrants in the amount of $ 27 was recorded as financial expense in the Company's statement of comprehensive loss. The portion of the 2012 Issuance Costs that were allocated to the shares in the amount of $ 163 was recorded to additional paid in capital.

The fair value of warrants granted was valued by using the Black-Scholes call option pricing model. The anti-dilution adjustments of August Most Favored Nation and the November Most Favored Nation were calculated by using Black-Scholes put option model since its similar to put options by providing a guaranteed price for an underlying instrument and offer insurance against dilution. The Company used different parameters for the warrants call option and the warrants put option since the expected life of the most favored nation terms was shorter than the expected life of the warrants. Fair values were estimated during 2012 using the following assumptions for the warrants call option (range of annualized percentages):

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share and per share data)

NOTE 9:- SHAREHOLDERS' EQUITY (Cont.)

	Year ended December 31, 2012
Dividend yield	0%
Expected volatility	79.61%-86.31%
Risk-free interest	0.12%-0.21%
Expected life	0.92-1.42 years

Fair values were estimated during 2012 using the following assumptions for the warrants put option (range of annualized percentages):

	Year ended December 31, 2012
Dividend yield	0%
Expected volatility	67%-83%
Risk-free interest	0.11%-0.28%
Expected life	0.25-1.04 years

The initial fair value of the detachable warrant granted on August 29, August 29, September 28 and November 30 (the "Detachable Warrants") was $ 93, $ 4, $ 4 and $ 210, respectively.

On December 1, 2012, the fair value of the detachable warrant related to the issuances of August 2012 through September 2012 was $ 141. The change in fair value in the amount of $ 40 was recorded as financial expense in the Company's statement of comprehensive loss. Upon the lapse of the Most Favored Nation period on December 1, 2012, the detachable warrant was reclassified to additional paid in capital.

On December 31, 2012, the fair value of the detachable warrant related to the November Financing was $ 188. The change in fair value in the amount of $ 22 was recognized as financial income in the Company's statement of comprehensive loss.

c. Share option plan:

In August 2007, the Company adopted the share option plan (the "Plan"). The number of shares that may be issued upon exercise of options under the plan shall not exceed 1,365,000 shares. As of December 31, 2012, 541,010 ordinary shares are available for future issuance under the Plan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share and per share data)

NOTE 9:- SHAREHOLDERS' EQUITY (Cont.)

The weighted-average estimated fair value of stock options granted and vested during the year ended December 31, 2012 was $ 1.09 and $ 1.08 per share, respectively, using the Black-Scholes option pricing. The weighted-average estimated fair value of non-vested stock options as of December 31, 2012 was $ 1.10 and per share, using the Black-Scholes option pricing. No options were granted in the year ended December 31, 2011 and 2010. There are no unvested options as of December 31, 2011. The following is a summary of the Company's stock option activity related to employees and directors and related information for the period ended December 31, 2012:

	Amount of options	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value
Outstanding at beginning of the period	360,527	$ 1.29		
Changes during the period:				
Granted	410,000	$ 1.58		
Options outstanding at end of the period	770,527	$ 1.44	7.2	$ 169
Vested and expected to vest	770,527	$ 1.44	7.2	$ 169
Options exercisable at end of the period	540,527	$ 1.38	6.3	$ 152

The aggregate intrinsic value in the table above represents the total intrinsic value (the difference between the Company's stock price on December 31, 2012 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on the last trading day of the fiscal year. This amount changes based on the fair market value of the Company's shares.

During the year ended December 31, 2012, the Company recorded $ 389 in share based compensation expenses. As of December 31, 2012, total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Company's stock option plans was $ 57. That cost is expected to be recognized over a weighted-average period of 2.5 months.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share and per share data)

NOTE 9:- SHAREHOLDERS' EQUITY (Cont.)

d. On January 18, 2005 and March 12, 2007, the chairman of the Company's board received warrants from the principle shareholder to purchase from it 50,700 and 152,000 Ordinary shares in consideration for par value of £0.01 and $ 1.55 per share, respectively. The options were fully vested and valid for 10 years from grant date. The benefit in respect of the options totaling $ 246 (unaudited) was included in the financial statements at grant date.

On March 1, 2011 the exercise price of 152,000 options granted on March 12, 2007 was adjusted to £0.01. The value of the benefit from the change in option terms (the difference between the options' value before the reduction in exercise price and the options' value after the reduction in exercise price) totaling $ 95, was recorded as an expense in 2011. The options' fair value as of March 1, 2011 was determined based on $ 1.63 share price, expected volatility of 86%, risk-free interest rate of 1.85%, expected dividend rate of 0%, and an expected life of 3 years.

e. Options and warrants to service providers:

The options and warrants outstanding as of December 31, 2012 that were granted to the Company's service providers are as follows:

Grant date	Number of options	Exercise price	Expiration date
August 28, 2007 (2)	20,475	1.29	August 28, 2017
May 27, 2009 (2)	30,000	1.56	May 27, 2019
February 12, 2012 (4)	309,492	2.00	February 12, 2017
April 26, 2012 (3)	90,000	2.00	March 19, 2017
June 27, 2012 (5)	2,988	1.75	June 21, 2022
November 30, 2012 (6)	90,180	2.00	November 30, 2017
	543,135		

1. In February 2005, Yissum was granted 300,000 options. Each option is exercisable into one Ordinary share of £0.01 par value. The options are exercisable over 5 years, according to their compliance with the agreed milestones, as defined in the option grant agreement, over a period of three years until February 3, 2008.

The Company recorded compensation cost as a liability related to stock based compensation in a total amount of $ 2 and $ 3 in 2010 and 2011, respectively. 285,000 options expired in 2008 and 15,000 options were exercised in 2011.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share and per share data)

NOTE 9:- SHAREHOLDERS' EQUITY (Cont.)

2. In August 2007 and May 2009, the Company granted 20,475 and 30,000 fully vested options, respectively, to the pre-clinical development consultant. The fair value of the options was $ 29 (unaudited) and $ 33, respectively. Since the exercise price of such options is denominated in a currency that is different from the Company's functional currency, the Company accounts for such options as a liability. The fair value of the options was estimated each cut-off date using the Black-Scholes options valuation model.

   The changes in fair value were recorded as financial expense (income). The Company recorded financial income in the amount of $ 3 for each of the years ended December 31, 2012 and 2011. The Company also recorded financial expense in the amount of $ 5 for the year ended 2010.

   In June 2012, the Company increased and changed the denominated currency of the exercise price of the options that were issued in May 2009 from £ 0.8 to $ 1.56 resulting in the options being reclassified from a liability to equity. The Company accounted for this change as a modification in accordance with ASC 718. The Company calculated the incremental value of this modification. Since there was no incremental value, the Company only reclassified the related liability in the amount of $ 35 to additional paid-in capital.

3. In 2011, the Company granted 35,000 fully vested warrants to the Finder (as defined below) under a consulting agreement that was signed in 2011 ("2011 Consulting Agreement"). The exercise price was $ 1 and the contractual life is five years. The fair value of the warrants in the amount of $ 45 was recorded to additional paid-in capital. In the months January and February 2012, the Company granted additional 10,000 fully vested warrants to the Finder under the 2011 Consulting Agreement. The exercise price was $ 1 per share and the contractual life is five years. The fair value of the warrants in the amount of $ 12 was recorded to additional paid-in capital.

   In April 2012, the Company modified the amount of warrants that were granted to the Finder from a total of 45,000 warrants to 90,000 warrants and also modified the exercise price from $ 1 to $ 2. The Company accounted for these changes as modifications in accordance with ASC 718. The Company calculated the incremental value of these modifications and recorded compensation cost in a total amount of $ 38 to additional paid-in capital

NOTE 9:- SHAREHOLDERS' EQUITY (Cont.)

On February 29, 2012, the Company entered into an agreement with an independent contractor (the "Finder"), for the purpose of introducing the Company to potential investors ("Finder's Agreement"). In the event that during the term of this agreement, an approved investor will consummate a cash investment, then the Finder shall be entitled to (i) a cash payment in an amount equal to 7% of the amount invested; and (ii) that number of ordinary shares of the Company issuable for a cash investment equal to 7% of the investment amount based upon the price per share pursuant to which the approved investor participated; less consulting consideration otherwise paid or payable to the Finder pursuant to a new consulting agreement that was signed in 2012 (the "2012 Consulting Agreement").

Between March through June 2012, the Company committed to grant an additional 20,000 fully vested warrants to the Finder under the 2012 Consulting Agreement (the "Finder's Warrants"). The exercise price was $ 2 per share and the contractual life is five years. The board of directors did not ratify the grant of the Finder's Warrants. Pursuant to the terms of the Finder's Agreement, the Company only issued, in September 2012, 16,279 ordinary shares, £0.01 par value each, and is obligated to pay $ 28 in cash, in relation with the August Financing (the "August Finder's Fee"), since the consulting fees pursuant to 2012 Consulting Agreement were lower than August Finder's Fee. The Company recorded an amount of $ 52 of stock-based compensation expenses in the statement of comprehensive loss during the year ended December 31, 2012. After the August Financing, the Consulting Agreement was terminated.

4. On February 12, 2012, the Company settled part of an outstanding debt to a related party by issuance of fully vested warrants to purchase 309,492 ordinary shares, £ 0.01 par value each. See also Note 12.

5. On June 27, 2012, the Company granted 2,988 options which shall vest on December 27, 2012. The Company recorded compensation expense in the amount of $ 2 in the statement of comprehensive loss during the year ended December 31, 2012.

6. On August 23, 2012, the Company entered into an agreement with an agent (the "Agent") to advise the Company on a private placement offering and as a contact with potential financing sources for the Company (the "Agent Agreement"). The Company agreed to pay the Agent a cash transaction fee in the amount of between 7% - 8% of the amount of the financing; and warrants equal to 7% - 8% of the stock and warrants issued in the financing at an exercise price equal to the investor's warrant exercise price. If the Agent raises at least $ 5,000, then he is entitled to receive a total of 10% warrants, retroactively. The consideration that is paid to the Agent is treated as issuance expenses. Pursuant to the terms of the Agent Agreement, the Company issued 90,180 warrants and paid $ 120 in cash, for advisory services in relation with the November 2012 Financing.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share and per share data)

NOTE 9:- SHAREHOLDERS' EQUITY (Cont.)

f. Share-based payment:

The share based expense recognized in the financial statements for services received from employees and non-employees is shown in the following table:

	Year ended December 31,		
	2012	2011	2010
Research and development, net	$ (2)	$ -	$ 7
General and administrative expenses	469	140	-
Financial (income), net	(82)	(120)	(102)
	$ 385	$ 20	$ (95)

NOTE 10:- TAXES ON INCOME

a. Tax rates:

The Company is incorporated in Great Britain. The corporate tax rate applying to a company that is incorporated in Great Britain is at 31 December 2012 is 24%, reduced from 26% from 1 April 2012. For companies with taxable income of less than £300,000 and having no related companies the corporate tax rate is 20%.

The Subsidiary is incorporated in the United States. The corporate tax applying to a company that is incorporated in the United States consists of a progressive corporate tax at a rate of up to 34% plus state tax and local tax at rates depending on the state and the city in which the company manages its business. In the Company's estimation, it is subject to approximately a 40% tax rate.

b. Tax assessment:

The Company has final tax assessment in Great Britain through 2010. The Subsidiary has not been issued final tax assessments since its establishment.

c. Net operating losses carryforward:

As of December 31, 2012, the Company's net operating losses carryforward for tax purposes in Great Britain amounted to approximately $11,944. These net operating losses may be carried forward indefinitely and may be offset against future taxable income. The Company expects that during the period in which these tax losses are utilized its income will be substantially tax-exempt.

NOTE 10:- TAXES ON INCOME (Cont.)

The Subsidiary is subject to U.S. income taxes. As of December 31, 2012, the Subsidiary has net operating loss carry-forward for federal income tax purposes of approximately $ 59 which expires in the years 2018-2028. The Subsidiary also has net operating loss carry-forward for state income tax purposes of approximately $ 59 which expires in the years 2018-2028. Utilization of the U.S. net operating losses may be subject to substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization.

d. Deferred taxes:
Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Management currently believes that since the Company has a history of losses, it is more likely than not that the deferred tax assets relating to the loss carryforwards and other temporary differences will not be realized in the foreseeable future. Therefore, the Company provided a full valuation allowance to reduce the deferred tax assets.

e. The main reconciling item between the statutory tax rate of the Company and the effective tax rate is the recognition of valuation allowances in respect of deferred taxes relating to accumulated net operating losses carried forward due to the uncertainty of the realization of such deferred taxes.

NOTE 11:- FAIR VALUE MEASUREMENTS

In accordance with ASC No. 820, "Fair Value Measurements and Disclosures", the Company measures its liability related to stock based compensation and warrants at fair value. Investments in foreign currency derivative instruments are classified within Level 3 value hierarchy. This is because these assets are valued using alternative pricing sources and models utilizing market observable inputs. The liability related to stock based compensation and warrants is classified within Level 3 value hierarchy because the liability is based on present value calculations and external valuation models whose inputs include market interest rates, estimated operational capitalization rates, volatilities and illiquidity. Unobservable inputs used in these models are significant.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share and per share data)

NOTE 11:- FAIR VALUE MEASUREMENTS (Cont.)

The Company's financial assets and liabilities measured at fair value on a recurring basis, consisted of the following types of instruments as of the following dates:

	December 31, 2011	December 31, 2012
	Fair value measurements using input type Level 3	Fair value measurements using input type Level 3
Liability related to stock options and warrants	$ 60	$ 630
Deferred shares	216	$ -
Total financial liabilities	$ 276	$ 630

Fair value measurements using significant unobservable inputs (Level 3):

Balance at December 31, 2011	$ (276)
Changes in values of deferred shares and liability related to stock option and warrants	418
Expiration of deferred shares	128
Issuance of liability related to warrants	(1,076)
Classification of liability award to equity as a result of expiration of the Most Favored Nation	141
Classification of liability award to equity as a result of modification	35
Balance at December 31, 2012	$ (630)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share and per share data)

NOTE 12: - RELATED PARTIES

a. The Chairman of the Company's board of directors is a senior partner in the law firm which represents the Company in intellectual property and commercial matters (the "Service Provider"). The service provider charges the Company for services it renders on an hourly basis. The balances and transactions with service provider were as follows:

Balances:

	December 31,	
	2012	2011
Trade payables *)	$ 718	$ 817

*) On February 12, 2012, $ 309 out of the total outstanding balance owed to the Service Provider, who is also a related party, for services rendered until December 2011, was settled by the grant of fully vested warrants to purchase 309,492 ordinary shares, £ 0.01 par value each, of the Company at an exercise price of $ 2 per share and a life of five years.

Transactions:

	Year ended December 31,		
	2012	2011	2010
Amounts charged to general and administrative expense	$ 365	$ 413	$ 262

b. On February 13, 2011, the members of the board of directors unconditionally waived any accrued and unpaid director's compensation (other than for rights granted in respect of options) as of that date. A related amount of $ 73 was classified from other accounts payable to additional paid in capital.

In March 2012, the members of the board of directors unconditionally waived any director's cash compensation for their service from March 2012 and until the Company will receive an aggregate financing of at least $ 15,000 in the private placement issuances from March 20, 2013 onward.

c. According to an agreement signed in 2004, a retainer fee of £ 1.5 per quarter should be paid to one of the Company's directors for financial advisory services (the "Advisory Agreement"). As of December 31, 2012 and 2011, the Company has outstanding liability in the amount of $ 49 for such services. During 2012, there were no any financial advisory services that were provided to the Company in relation to the Advisory Agreement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share and per share data)

NOTE 13:- FINANCIAL EXPENSES (INCOME), NET

	Year ended December 31,		
	2012	2011	2010
Financial expenses:			
Interest expense due to amortization of convertible notes	$ 898	$ -	$ -
Issuance expenses	137	-	-
Other	6	9	5
	1,041	9	5
Financial income:			
Changes in values of deferred shares and liability related to warrants	(418)	(120)	(102)
Exchange rate	(22)	(17)	(20)
	(440)	(137)	(122)
	$ 601	$ (128)	$ (117)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share and per share data)

NOTE 14: - SUBSEQUENT EVENTS

a. On January 17, 2013, the Company issued 67,500 of ordinary shares, £ 0.01 par value each, at a price of $ 2.00 per share, for total gross proceeds of $ 135 that were paid in December 2012. The investors were also granted with warrants to purchase 33,750 ordinary shares, at an exercise price of $ 2.00 (the "December 2012 Financing").

Under the terms of the purchase agreement, from the date each investor entered into the purchase agreement until the earlier of (i) the six month anniversary of the effective date of a registration statement or (ii) the date immediately following the 20 consecutive trading days wherein the trading volume for the Ordinary Shares or ADSs exceeds $ 100 per trading day, each investor may elect to exchange all of its shares and warrants for any such additional securities issued by the Company in a subsequent financing on the same terms and conditions as provided to the investors in a subsequent financing (the " December Most Favored Nation").

In relation to the December 2012 Financing, the Company first allocated the proceeds received in the amount of $ 17 to the detachable warrant, freestanding liability instrument that is measured at fair value at each reporting date, based on its fair value, with changes in the fair values being recognized in the Company's statement of comprehensive loss as financial income or expense, in accordance with ASC 815. The remaining proceeds amounted to $ 118 were allocated to the shares and were recorded to receipt on account of shares.

Due to the December Most Favored Nation terms, the most favored nation terms for the investors in the November Financing were extended to 2 years and the investors also received warrants with a January Down Round Protection (as defined in note 14b), in January 2013. (See Note 14b).

b. On January 17, 2013, the Company completed a private placement under the January 2013 Purchase Agreement (the "January Purchase Agreement"), by and among the Company and certain investors (the "January 2013 Financing"). As part of the January 2013 Financing, the Company sold an aggregate of 405,500 ordinary shares at $ 2.00 per share (the "January Shares") and 202,750 Series A warrants, 375,000 Series B warrants and 187,500 Series C warrants to purchase an aggregate of 765,250 ordinary Shares (the "January Warrants"), for gross proceed of $ 811. Under the terms of the Agent Agreement, the Company issued 43,035 Series A warrants with an exercise price of $ 2.00 per share and a contractual life of five years. The fair value of the warrants at the commitment date was $ 21. The Company also paid $ 70 in cash, for advisory and legal services in relation with the January 2013 Financing.

The exercise price of the January Warrants is $ 2.00. The Series A warrants and Series C warrants are exercisable for a term of five years and the Series B warrants are exercisable until the earlier of (i) the one-year anniversary of the date when the registration of the Series B warrants becomes effective, or (ii) the 18 month anniversary of the issuance date. The vesting of the Series C warrants is dependent upon exercise of the Series B warrants. The Series C warrants shall vest in proportion to the holder's exercise of the Series B warrant as compared with the total Series B warrants issued to such holder.

NOTE 14: - SUBSEQUENT EVENTS (Cont.)

Under the January 2013 Financing, the Company also entered into the January Registration Rights Agreement with the investors pursuant to which the Company is required to file a registration statement to register the resale of up to 133% of the number of ordinary shares issued in the January 2013 Financing and that may be issued upon exercise of the January Warrants. The Company agreed to file a registration statement no later than 30 days after February 28, 2013, provided the filing date shall be 60 days if the Company is required to include audited financial statements for fiscal year 2012 and to have the registration statement declared effective no later than the earlier of (a) the 90th day after the Self Filing Effective Date (135 days if the registration statement is reviewed by the SEC or 165 days if the Company is required to include audited financial statements for fiscal year 2012) or (b) the third day after the Company is notified that the registration statement will not be reviewed or is no longer subject to review. To the extent the registration statement is not declared effective by the agreed upon effectiveness deadline, the Company agreed to pay to each investor holding registrable securities an amount in cash equal to one percent (1%) of such investor's original invested amount on the closing date of the financing, on the date of such failure and on every 30-day anniversary of such failure until such failure has been cured, pro rated for periods totaling less than 30 days. In the event the Company fails to make such payments in a timely manner, such payments will bear interest at the rate of 1.5% per month (prorated for partial months) until paid in full.

Subject to certain limitations, the Series B warrants may be cancelled for consideration equal to $ 0.001 per warrant share by the Company in the event that the closing sale price of the ordinary shares for each 20 consecutive trading days exceeds $ 3.75 (subject to adjustment for forward and reverse stock splits, recapitalizations, stock dividends, etc.) and (ii) the average daily volume for such 20 day period exceeds 75,000 ordinary shares or ADSs (subject to adjustment for forward and reverse stock splits, recapitalizations, stock dividends, etc.).

On and after January 18, 2014, if a registration statement registering the ordinary shares underlying the warrants is not effective, the holders of such warrants may exercise their warrants on a cashless basis. The exercisability of the warrants may be limited if, upon exercise, the holder thereof would beneficially own more than 4.9% of the Company's ordinary shares.

The exercise price of the January Warrants is subject to standard anti-dilution adjustments. In addition, under the terms of the January Purchase Agreement, from the date each investor entered into the January Purchase Agreement until the later of (i) the two year anniversary of the effective date of a registration statement or (ii) the date immediately following the 20 consecutive trading days wherein the trading volume for the ordinary shares or ADSs exceeds $ 100 per trading day (the "Expiration Date"), each investor may elect to exchange all of its shares and January Warrants for any such additional securities issued by the Company in a subsequent financing (as defined in the January Purchase Agreement), on the same terms and conditions as provided to the investors in a subsequent financing on a $ 1 for $ 1 basis, in lieu of cash consideration (the "January Most Favored Nation").

NOTE 14: - SUBSEQUENT EVENTS (Cont.)

In addition, while the January Warrants are outstanding if the Company will issue shares or warrants at an effective price per share which is lower than the exercise price of the January Warrants, the exercise price of the January Warrants shall be reduced to the lower share price in the subsequent financing (the "January Down Round Protection"). In addition, until the Expiration Date, the shares and the Series A warrants are also entitled to a price protection.

In relation to the January 2013 Financing, the Company will first allocate the proceeds received in the amount of $ 382 to the detachable warrant, that due to the most favored nation terms and in accordance with ASC 815 is being considered a freestanding liability instrument that is measured at fair value at each reporting date, based on its fair value, with changes in the fair values being recognized in the Company's statement of comprehensive loss as financial income or expense. The remaining proceeds amounted to $ 429 will be allocated to the shares and will be recorded to additional paid in capital. The issuance costs in relation to the January 2013 Financing in the amount of $ 91 will be allocated between the warrants and the shares in proportion to the allocation of the proceeds.

The portion of the issuance costs that will be allocated to the warrants in the amount of $ 43 were recognized as financial expense in the Company's statement of comprehensive loss. The portion of the issuance costs that were allocated to the shares in the amount of $ 48 will be recorded to additional paid in capital.

c. In January 2013, the Company agreed that provided that the Agent raises an aggregate of at least $ 3,500 for the Company (the "Goal"), the agreement that was signed with the agent on November 30, 2012 shall be amended such that the warrants granted to the Agent in relation to the November Financing, will be eligible to a down-round anti-dilution protection. The Company will reclassify the warrants granted to the Agent in relation to the November Financing to a liability upon the achievement of the Goal. See also note 9e.

d. In January, February and March 2013, the Company completed a private placement by and among the Company and certain investors. As part of the financing, the Company sold an aggregate of 165,500 ordinary shares at $ 2.00 per share and 82,750 Series A warrants, for gross proceed of $ 331. The warrants and the shares are eligible to most favored nation terms and also to a price protection. Under the terms of the Agent Agreement, the Company issued 10,800 warrants with an exercise price of $ 2.00 per share and a contractual life of five years. The fair value of the warrants at the commitment date was $ 5. The Company also paid $ 14 in cash for advisory services in relation to the financings rounds.

NOTE 14: - SUBSEQUENT EVENTS (Cont.)

In relation to the January 2013 Financing, the Company will first allocate the proceeds received in the amount of $ 41 to the detachable warrant, that due to the most favored nation terms and in accordance with ASC 815 is being considered a freestanding liability instrument that is measured at fair value at each reporting date, based on its fair value, with changes in the fair values being recognized in the Company's statement of comprehensive loss as financial income or expense. The remaining proceeds amounted to $ 290 will be allocated to the shares and will be recorded to additional paid in capital. The issuance costs in relation to financings in the amount of $ 20 were allocated between the warrants and the shares in proportion to the allocation of the proceeds. The portion of the issuance costs that were allocated to the warrants in the amount of $ 2 were recognized as financial expense in the Company's statement of comprehensive loss. The portion of the issuance costs that were allocated to the shares in the amount of $ 18 were recorded to additional paid in capital.

CELSUS THERAPEUTICS PLC.
(Formerly Morria Biopharmaceuticals Plc.)
(A Development Stage Company)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2013

U.S. DOLLARS IN THOUSANDS

UNAUDITED

INDEX

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CELSUS THERAPEUTICS PLC.

(Formerly Morria Biopharmaceuticals Plc.)

(A Development Stage Company)

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	June 30,		December 31,
	2013	2012	2012
	Unaudited		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$ 1	$ 539	$ 1,104
Other accounts receivable and prepaid expenses	61	11	14
Total current assets	62	550	1,118
PROPERTY AND EQUIPMENT, NET	2	-	2
Total assets	$ 64	$ 550	$ 1,120

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

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands (except share and per share data)

	June 30,		December 31,
	2013	2012	2012
	Unaudited		
LIABILITIES AND SHAREHOLDERS' DEFICIENCY			
CURRENT LIABILITIES:			
Trade payables	$ 2,085	$ 943	$ 1,697
Other accounts payable	1,175	1,111	1,255
Short-term convertible notes	-	*) -	898
Total current liabilities	3,260	2,054	3,850
LONG-TERM LIABILITIES:			
Liability related to stock options and warrants	1,831	923	630
Total long-term liabilities	1,831	923	630
SHAREHOLDERS' DEFICIENCY:			
Ordinary shares of £ 0.01 par value - Authorized: 49,800,000 shares at June 30, 2013 (unaudited) and December 31, 2012; Issued and outstanding: 14,177,809 (unaudited) and 13,369,809 shares at June 30, 2013 and December 31, 2012, respectively	258	229	245
Additional paid-in capital	14,333	11,373	13,199
Receipts on account of shares	-	-	118
Deficit accumulated during the development stage	(19,618)	(14,029)	(16,922)
Total shareholders' deficiency	(5,027)	(2,427)	(3,360)
Total liabilities and shareholders' deficiency	$ 64	$ 550	$ 1,120

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

U.S. dollars in thousands (except per share data)

	Six months ended June 30,		Year ended December 31,	Period from October 7, 2004 (date of inception) to June 30,
	2013	2012	2012	2013
	Unaudited		Audited	Unaudited
Operating expenses:				
Research and development expenses, net	$ 831	$ 179	$ 1,483	$ 6,671
General and administrative expenses	870	1,078	2,184	8,709
Operating loss	1,701	1,257	3,667	15,380
Financial expense, net	995	118	601	4,205
Net comprehensive loss	$ 2,696	$ 1,375	$ 4,268	$ 19,585
Deemed dividend	-	33	33	33
Net loss attributable to holders of ordinary shares	$ 2,696	$ 1,408	$ 4,301	$ 19,618
Net basic and diluted loss per share	$ (0.19)	$ (0.12)	$ (0.35)	
Weighted average number of ordinary shares used in computing basic and diluted net loss per share	13,978,994	12,179,707	12,458,874	

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY

U.S. dollars in thousands (except share and per share data)

	Ordinary shares		Additional paid in	Receipts on account	Deficit accumulated during the development	
	Number	Amount	capital	shares	stage	Total
Balance as of December 31, 2011	12,098,597	225	9,836	75	(12,621)	(2,485)
Issuance of share capital, net ($ 1.32-$ 1.94 per share)	1,254,933	20	1,992	(75)	-	1,937
Share based compensation	-	-	450	-	-	450
Issuance of shares granted to service provider	16,279	*) -	25	-	-	25
Expiration of deferred shares	-	-	128	-	-	128
Classification of warrants from liability to equity as a result of modification	-	-	35	-	-	35
Classification of warrants from liability to equity as a result of expiration of most favored nation terms	-	-	141	-	-	141
Conversion of trade payables into warrants	-	-	309	-	-	309
Beneficial conversion feature related to convertible notes	-	-	250	-	-	250
Receipts on account of shares	-	-	-	118	-	118
Deemed dividend related to warrants' modification	-	-	33	-	(33)	-
Net loss	-	-	-	-	(4,268)	(4,268)
Balance as of December 31, 2012	13,369,809	$ 245	$ 13,199	$ 118	$ (16,922)	$ (3,360)
Issuance of share capital, net ($ 1.67 – 1.73 per share) (unaudited)	808,000	13	1,077	(118)	-	972
Share based compensation (unaudited)	-	-	57	-	-	57
Net loss (unaudited)	-	-	-	-	(2,696)	(2,696)
Balance as of June 30, 2013 (unaudited)	14,177,809	$ 258	$ 14,333	$ -	$ (19,618)	$ (5,027)

*) Represents an amount lower than $ 1.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Six months ended June 30,		Year ended December 31,	Period from October 7, 2004 (date of inception) to June 30,
	2013	2012	2012	2013
	Unaudited		Audited	Unaudited
Cash flows from operating activities:				
Net loss	$ (2,696)	$ (1,375)	$ (4,268)	$ (19,585)
Adjustments to reconcile net loss to net cash used in operating activities:				
Share based compensation and issuance of shares granted to service provider	57	293	514	1,585
Depreciation	*) -	-	2	11
Changes in values of deferred shares and liability related to stock options and warrants	737	(58)	(418)	1,015
Decrease (increase) in accounts receivable and prepaid expenses	(47)	10	7	(61)
Increase (decrease) in trade payables	388	(127)	627	2,414
Increase (decrease) in other accounts payable	(80)	254	394	1,224
Interest expenses and warrant liability issuance costs	242	228	1,008	1,250
Net cash used in operating activities	(1,399)	(775)	(2,134)	(12,147)
Cash flows from investing activities:				
Purchase of property and equipment	-	-	-	(9)
Net cash used in investing activities	-	-	-	(9)
Cash flows from financing activities:				
Proceeds from issuance of shares and warrants, net	1,396	418	2,224	12,114
Proceeds from issuance of convertible notes and warrants, net	-	890	890	890
Repayment of convertible notes	(1,100)	-	-	(1,100)
Receipts on account of shares	-	-	118	253
Net cash provided by financing activities	296	1,308	3,232	12,157
Increase (decrease) in cash and cash equivalents	(1,103)	533	1,098	1
Cash and cash equivalents at the beginning of the period	1,104	6	6	-
Cash and cash equivalents at the end of the period	$ 1	$ 539	$ 1,104	$ 1
Supplemental disclosure of non-cash investing and financing activities:				
Expiration of deferred shares	$ -	$ 128	$ 128	$ 548
Director fee waiver	$ -	$ -	$ -	$ 73
Classification of warrants from liability to equity as a result of modification	$ -	$ 35	$ 35	$ 35
Classification of warrants from liability to equity as a result of expiration of most favored nation terms	$ -	$ -	$ 141	$ 141
Purchase of property and equipment	$ -	$ -	$ 4	$ 4
Conversion of trade payables into warrants	$ -	$ 309	$ 309	$ 309

*) Represents an amount lower than $ 1.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share and per share data)

NOTE 1:- GENERAL

a. Celsus Therapeutics Plc. (the "Company") (a development stage company), formerly Morria Biopharmaceuticals Plc, was incorporated in Great Britain as a private limited company and commenced business operations on October 7, 2004. On February 15, 2005 the Company was registered as a non-traded public company under the laws of England and Wales.

The Company is engaged in the development of ethical synthetic drugs for the treatment of severe chronic inflammatory conditions such as contact dermatitis, allergic rhinitis, etc.

The Company listed its securities on the Over-the-Counter Bulletin Board (the "OTCQB") in February 2013 and is also considering applying for listing on a major exchange as soon as practicable.

b. On March 22, 2011 the Company established an Israeli subsidiary, Morria Biopharma Ltd., which is wholly-owned by the Company. As of the date of signing the financial statements, this Israeli subsidiary is inactive.

c. The Company is in the development stage. As reflected in the accompanying unaudited interim financial statements, the Company incurred a loss for the six month period ended June 30, 2013 of $2,696 and had a negative cash flow from operating activities of $1,399 during the six month period ended June 30, 2013. The accumulated deficit as of June 30, 2013 is $19,618. The Company has not yet generated revenues from product sale.

The Company devotes most of its efforts toward research and development activities. As of June 30, 2013 the Company does not have sufficient capital resources to carry its research and development activities until commercialization of the underlying products.

Subsequent to the balance sheet date, the Company obtained additional financing and issued 22,003,452 ordinary shares in consideration of approximately $11,993, net.

There are no assurances that the Company will be successful in obtaining an adequate level of financing needed for its long-term research and development activities. If the Company will not have sufficient liquidity resources, the Company may not be able to continue the development of all of its products or may be required to delay part of the development programs in order to remain a viable company beyond March 31, 2015.

d. On January 28, 2005 the Company acquired Morria Biopharmaceuticals Inc. (the "Subsidiary"). The Subsidiary was the owner of the intellectual property rights in drugs which it develops under a license that was granted by Yissum, the research development company of the Hebrew University of Jerusalem Israel ("Yissum") on November 27, 2002 and in connection with which a sublicense agreement was signed between the Subsidiary and the Company on February 1, 2005 (for details about the license agreement and the sublicense agreement see Note 6).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share and per share data)

NOTE 1:- GENERAL (Cont.)

e. The Company depends on third-party suppliers for the raw materials required for the production of its product candidates, which supplies phospholipids and hyaluronic acid. The Company also does not have the ability to independently conduct clinical trials for its product candidates, and it relies on third parties, such as contract research organizations, medical institutions, and clinical investigators to perform this function.

NOTE 2:- UNAUDITED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The Company believes that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the 2012 annual financial statements and the notes thereto.

Operating results for the six months period ended June 30, 2013, are not necessarily indicative of the results that may be expected for the year ended December 31, 2013.

NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the annual financial statements of the Company as of December 31, 2012 are applied consistently in these financial statements. For further information, refer to the consolidated financial statements as of December 31, 2012

a. Use of estimates:

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions. The Company's management believes that the estimates, judgments and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share and per share data)

NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Financial statements in United States dollars:

Most of the Company's costs and financing are in U.S. dollars. The Company's management believes that the dollar is the currency of the primary economic environment
in which the Company and its subsidiaries have operated and expect to continue to operate in the foreseeable future. Therefore, the functional currency of the Company and its subsidiaries is the Dollar.

The Company and its subsidiaries' transactions and balances denominated in Dollars are presented at their original amounts. Non-Dollar transactions and balances have been remeasured to Dollars in accordance with ASC 830, "Foreign Currency Matters". All transaction gains and losses from remeasurement of monetary balance sheet items denominated in non-dollar currencies are reflected in the statements of income as financial income or expenses, as appropriate.

NOTE 4:- FAIR VALUE MEASURMENTS

In accordance with ASC No. 820, "Fair Value Measurements and Disclosures", the Company measures its liability related to stock based compensation and warrants at fair value. Investments in foreign currency derivative instruments are classified within Level 3 value hierarchy. This is because these assets are valued using alternative pricing sources and models utilizing market observable inputs. The liability related to stock based compensation and warrants is classified within Level 3 value hierarchy because the liability is based on present value calculations and external valuation models whose inputs include market interest rates, estimated operational capitalization rates, volatilities and illiquidity. Unobservable inputs used in these models are significant.

The Company's financial assets and liabilities measured at fair value on a recurring basis, consisted of the following types of instruments as of the following dates:

	June 30,		December 31,
	2013	2012	2012
	Unaudited		
	Fair value measurements using input type		
	Level 3		
Liability related to stock options and warrants	$ 1,831	$ 923	$ 630

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share and per share data)

NOTE 4:- FAIR VALUE MEASURMENTS (Cont.)

Fair value measurements using significant unobservable inputs (Level 3):

	Unaudited
Balance at December 31, 2012	$ (630)
Changes in values of liability related to stock option and warrants	(737)
Issuance of liability related to warrants	(464)
Balance at June 30, 2013	(1,831)

NOTE 5:- DEFERRED SHARES

In June 2007, the Company issued 400,000 Deferred C shares of £ 0.001 par value each to Capital Management LLP ("CSS"), for serving as broker for fund raisings. The Deferred C shares entitle CSS the right to purchase 400,000 Ordinary shares, of £ 0.01 par value each, of the Company in one of the following: (i) during a period of 5 years, (ii) as part of a sale event involving the sale of all the Company's shares or (iii) upon the listing of the Company's shares for trade. The exercise price for a Deferred C share is £ 0.79.

As part of the issuance of Deferred C Shares, the Company repurchased 400,000 Deferred A shares of £0.001 par value each that were issued in 2005. The Deferred A shares were acquired at par value.

The Company accounted for the deferred shares in accordance with ASC 718 and ASC 505-50. Since the exercise price of such deferred shares was denominated in a currency that is different from the Company's functional currency, the Company accounted for such deferred shares as a liability. The fair value of the deferred shares was estimated each cut-off date using the Black-Scholes options valuation model. The changes in fair value were recorded as financial expense (income).

As of June 13, 2012, the Deferred C shares have expired. The fair value of the Deferred C shares on the date of expiration in the amount of $128 was reclassified to additional paid-in capital.

NOTE 6:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Agreement with Yissum

On November 27, 2002, the Subsidiary executed a license agreement with Yissum, pursuant to which the Subsidiary was granted a global, exclusive license, including the right to grant sublicenses, subject to receipt of the prior written approval of Yissum which shall not be unreasonably withheld. The full intellectual property rights concerning the technology subject to the license are and will remain fully owned by Yissum for the licensed technology developed by Yissum.

This technology underlies part of the Company's research and development projects. The license includes the exclusive rights to produce, sell, market, import, distribute, and make any use of the technology, by both the Subsidiary and the holders of rights by virtue of the sublicenses. The agreement is valid for 20 years. In exchange for granting the said license to the Subsidiary, Yissum will be entitled to royalties as elaborated below:

1. 4% of the total sales that the Subsidiary or a related company thereof (as this term is defined in the agreement) will make;

2. 18% of the total payments or royalties that Subsidiary will be entitled to receive from third parties to whom sublicenses have been granted.

On June 20, 2005, the Company executed with Yissum an agreement for providing research and development services, whereby Yissum grants the Company compound development services. It has been agreed that the intellectual property and the knowledge that will accumulate during the provision of the services will be owned by Yissum. Yissum has granted the Company a license to use the results of the service provision agreement, and the permission to grant a sublicense. The service agreement was renewed several times prior to 2011. On February 28, 2011, the service provision agreement was renewed again. In consideration for the performance of services the Company agreed to pay Yissum $ 70 plus overhead per year, depending on the work requested by the Company to be done at the sole and exclusive option of the Company during each year of the following five years. The additional services fees shall be payable in semi-annual payments.

b. Office lease commitment:

The Company's registered address is located in Great Britain with minimum rental commitments of $ 0.5 plus VAT for each month. The Agreement commenced on February 1, 2010, and shall continue until it is terminated by either party giving the other three months' prior written notice. The Company's future minimum commitment as of June 30, 2013 is approximately $ 1.5 to be paid in 2013.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share and per share data)

NOTE 7:- SHAREHOLDERS' EQUITY

a. Share and warrants issuances:

In the months January through August 2012, the Company issued 242,500 of ordinary shares, £ 0.01 par value each, at a price of $ 2.00 per share, for total gross proceeds of approximately $ 485, net of $ 75 included in receipt on the account of shares as of January 1, 2012. The investors were also granted with warrants to purchase 261,731 ordinary shares, at an exercise price of $ 2.00. In June 2012, the Company issued 10,000 of ordinary shares, £ 0.01 par value each, at a price of $ 2.25 per share, for total gross proceeds of approximately $ 23. This financing round was furnished with 50% warrant coverage, to purchase 5,000 ordinary shares of the Company, at an exercise price of $ 2.25.

In April 2012, the Company modified 39,500 warrants that were issued to investors in January 2012 with an exercise price of $ 1 to a total of 79,000 warrants with an exercise price of $ 2. The Company accounted for these changes as modifications in accordance with ASC 718. The Company calculated the incremental value of these modifications and recorded deemed dividend in a total amount of $ 33 to additional paid-in capital.

In August 2012, the Company issued 232,558 ordinary shares, £ 0.01 par value each, at a price of $ 1.72 per share, for total gross proceeds of $ 400. This financing round was furnished with 100% warrant coverage, to purchase 232,558 ordinary shares of the Company, at an exercise price of $ 1.72 and contractual life of five years (the "August 2012 Financing"). In addition, in August and September 2012, the Company issued 18,375 of ordinary shares, £0.01 par value each, at a price of $ 2.00 per share, for total gross proceeds of $ 37. This financing round was furnished with 100% warrant coverage, to purchase 18,375 ordinary shares of the Company, at an exercise price of $ 2.00 per share and contractual life of five years. If the Company contemplates a private placement of ordinary shares and warrants with an aggregate offering amount which is no greater than $ 20,000 or in any other private placement that occurs prior to December 1, 2012 (the "Private Placement"), in which the equity price and equity linked pricing terms are more favorable to the investors, the Company will modify the terms to reflect any more favorable pricing terms provided to the other investors in the Private Placement on a $ 1 for $ 1 basis, in lieu of cash consideration. (the "Most Favored Nation").

On November 30, 2012, the Company completed a private placement under the November Purchase Agreement (the " November 2012 Purchase Agreement"), by and among the Company and certain investors (the "November 2012 Financing"). As part of the November 2012 Financing, the Company sold an aggregate of 751,500 Ordinary Shares at $ 2.00 per share for gross proceeds of $ 1,503 (the "November 2012 Shares") and 375,750 warrants to purchase an aggregate of 375,750 Ordinary Shares (the "November's 2012 Warrants").

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share and per share data)

NOTE 7:- SHAREHOLDERS' EQUITY (Cont.)

Under the November 2012 Financing, the Company also entered into the November Registration Rights Agreement with the investors pursuant to which the Company is required to file a registration statement to register the resale of up to 133% of the number of Ordinary Shares issued in the November Financing and that may be issued upon exercise of the November's 2012 Warrants. The Company agreed to file a registration statement no later than 30 days after January 3, 2013 and to have the registration statement declared effective no later than the earlier of (a) the 90th day after the Self Filing Effective Date (or 120 days if the registration statement is reviewed by the SEC) or (b) the third day after the Company is notified that the registration statement will not be reviewed or is no longer subject to review. In February 2013, the registration statement was declared effective.

As part of the November 2012 Financing, the Company issued to the investors the November's 2012 Warrants to purchase Ordinary Shares at an initial exercise price of $ 2.00 per share, exercisable for a term of five years. The exercise price is subject to standard anti-dilution adjustments.

In addition, under the terms of the November 2012 Purchase Agreement, from the date each investor entered into the November 2012 Purchase Agreement until the earlier of (i) the six month anniversary of the effective date of a registration statement or (ii) the date immediately following the 20 consecutive trading days wherein the trading volume for the Ordinary Shares or ADSs exceeds $ 100 per trading day, each investor may elect to exchange all of its shares and warrants for any such additional securities issued by the Company in a subsequent financing (as defined in the November Purchase Agreement), on the same terms and conditions as provided to the investors in a subsequent financing on a $ 1 for $ 1 basis, in lieu of cash consideration (the "November Most Favored Nation").

Due to the December 2012 Most Favored Nation terms, the most favored nation terms for the investors in the November 2012 Financing were extended to 2 years and the investors also received warrants with a January Down Round Protection in January 2013.

On January 17, 2013, the Company issued 67,500 of ordinary shares, £ 0.01 par value each, at a price of $ 2.00 per share, for total gross proceeds of $ 135 that were paid in December 2012. The investors were also granted with warrants to purchase 33,750 ordinary shares, at an exercise price of $ 2.00 (the "December 2012 Financing").

Under the terms of the purchase agreement, from the date each investor entered into the purchase agreement until the earlier of (i) the six month anniversary of the effective date of a registration statement or (ii) the date immediately following the 20 consecutive trading days wherein the trading volume for the Ordinary Shares or ADSs exceeds $ 100 per trading day, each investor may elect to exchange all of its shares and warrants for any such additional securities issued by the Company in a subsequent financing on the same terms and conditions as provided to the investors in a subsequent financing (the " December Most Favored Nation").

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share and per share data)

NOTE 7:- SHAREHOLDERS' EQUITY (Cont.)

On January 17, 2013, the Company completed a private placement under the January 2013 Purchase Agreement (the "January 2013 Purchase Agreement"), by and among the Company and certain investors (the "January 2013 Financing"). As part of the January 2013 Financing, the Company sold an aggregate of 405,500 ordinary shares at $ 2.00 per share (the "January 2013 Shares") and 202,750 Series A warrants, 375,000 Series B warrants and 187,500 Series C warrants to purchase an aggregate of 765,250 ordinary Shares (the "January 2013 Warrants"), for gross proceed of $ 811. Under the terms of the Agent Agreement, the Company issued 43,035 Series A warrants with an exercise price of $ 2.00 per share and a contractual life of five years. The fair value of the warrants at the commitment date was $ 21. The Company also paid $ 70 in cash, for advisory and legal services in relation with the January 2013 Financing.

The exercise price of the January 2013 Warrants is $ 2.00. The Series A warrants and Series C warrants are exercisable for a term of five years and the Series B warrants are exercisable until the earlier of (i) the one-year anniversary of the date when the registration of the Series B warrants becomes effective, or (ii) the 18 month anniversary of the issuance date. The vesting of the Series C warrants is dependent upon exercise of the Series B warrants. The Series C warrants shall vest in proportion to the holder's exercise of the Series B warrant as compared with the total Series B warrants issued to such holder.

Under the January 2013 Financing, the Company also entered into the January 2013 Registration Rights Agreement with the investors pursuant to which the Company is required to file a registration statement to register the resale of up to 133% of the number of ordinary shares issued in the January 2013 Financing and that may be issued upon exercise of the January 2013 Warrants. The Company agreed to file a registration statement no later than 30 days after February 28, 2013, provided the filing date shall be 60 days if the Company is required to include audited financial statements for fiscal year 2012 and to have the registration statement declared effective no later than the earlier of (a) the 90th day after the Self Filing Effective Date (135 days if the registration statement is reviewed by the SEC or 165 days if the Company is required to include audited financial statements for fiscal year 2012) or (b) the third day after the Company is notified that the registration statement will not be reviewed or is no longer subject to review.

Subject to certain limitations, the Series B warrants may be cancelled for consideration equal to $ 0.001 per warrant share by the Company in the event that the closing sale price of the ordinary shares for each 20 consecutive trading days exceeds $ 3.75 (subject to adjustment for forward and reverse stock splits, recapitalizations, stock dividends, etc.) and (ii) the average daily volume for such 20 day period exceeds 75,000 ordinary shares or ADSs (subject to adjustment for forward and reverse stock splits, recapitalizations, stock dividends, etc.).

NOTE 7:- SHAREHOLDERS' EQUITY (Cont.)

The exercise price of the January 2013 Warrants is subject to standard anti-dilution adjustments. In addition, under the terms of the January 2013 Purchase Agreement, from the date each investor entered into the January 2013 Purchase Agreement until the later of (i) the two year anniversary of the effective date of a registration statement or (ii) the date immediately following the 20 consecutive trading days wherein the trading volume for the ordinary shares or ADSs exceeds $ 100 per trading day (the "Expiration Date"), each investor may elect to exchange all of its shares and January 2013 Warrants for any such additional securities issued by the Company in a subsequent financing (as defined in the January Purchase Agreement), on the same terms and conditions as provided to the investors in a subsequent financing on a $ 1 for $ 1 basis, in lieu of cash consideration (the "January 2013 Most Favored Nation").

In addition, while the January 2013 Warrants are outstanding if the Company will issue warrants at an effective price per share which is lower than the exercise price of the January 2013 Warrants, the exercise price of the January 2013 Warrants shall be reduced to the lower share price in the subsequent financing (the "January 2013 Down Round Protection"). In addition, until the Expiration Date, the shares and the Series A warrants are also entitled to a price protection.

From January 31, 2013 through May 13, 2013, the Company completed several private placements by and among the Company and certain investors. As part of the financings, the Company sold an aggregate of 335,000 ordinary shares at $ 2.00 per share and 167,500 Series A warrants, for gross proceeds of $ 670. The warrants and the shares are eligible to most favored nation terms and also to a price protection. Under the terms of the Agent Agreement, the Company issued 10,800 warrants with an exercise price of $ 2.00 per share and a contractual life of five years. The fair value of the warrants at the commitment date was $ 5. The value of the warrants as of June 30, 2013 was $ 11 and the change in value was recorded as financial expense.

In relation to the issuances of August 2012 Financing through May 2013 financings, the Company first allocated the proceeds to the detachable warrant, that due to the most favored nation terms and in accordance with ASC 815 is being considered a freestanding liability instrument that is measured at fair value at each reporting date, based on its fair value, with changes in the fair values being recognized in the Company's statement of comprehensive loss as financial income or expense. The remaining proceeds were allocated to the shares and were recorded to equity. The issuance costs were allocated between the warrants and the shares in proportion to the allocation of the proceeds. The portion of the issuance costs that were allocated to the warrants was recorded as financial expense in the Company's statement of comprehensive loss. The portion of the issuance costs that were allocated to the shares was recorded to additional paid in capital.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share and per share data)

NOTE 7:- SHAREHOLDERS' EQUITY (Cont.)

The fair value of warrants granted was valued by using the Black-Scholes call option pricing model. The anti-dilution adjustments of August 2012 Most Favored Nation and the November 2012 Most Favored Nation were calculated by using Black-Scholes put option model since its similar to put options by providing a guaranteed price for an underlying instrument and offer insurance against dilution. The Company used different parameters for the warrants call option and the warrants put option since the expected life of the most favored nation terms was shorter than the expected life of the warrants. Fair values were estimated using the following assumptions for the warrants call option (range of annualized percentages):

	Year ended December 31, 2012	Period ended June 30, 2013
		Unaudited
Dividend yield	0%	0%
Expected volatility	79.61%-86.31%	76.83%-86.09%
Risk-free interest	0.12%-0.21%	0.12%-0.67%
Expected life	0.92-1.42 years	0.75-2.39 years

Fair values were estimated during 2012 using the following assumptions for the warrants put option (range of annualized percentages):

	Year ended December 31, 2012	Period ended June 30, 2013
		Unaudited
Dividend yield	0%	0%
Expected volatility	67%-83%	73.33%-86.09%
Risk-free interest	0.11%-0.28%	0.13%-0.32%
Expected life	0.25-1.04 years	0.58-1.83 years

The initial fair value of the detachable warrant granted on August 29, August 29, September 28 and November 30, 2012 (the "Detachable Warrants") was $ 93, $ 4, $ 4 and $ 210, respectively.

On December 1, 2012, the fair value of the detachable warrant related to the issuances of August 2012 through September 2012 was $ 141. The change in fair value in the amount of $ 40 was recorded as financial expense in the Company's statement of comprehensive loss. Upon the lapse of the Most Favored Nation period on December 1, 2012, the detachable warrant was reclassified to additional paid in capital.

On December 31, 2012 and June 30, 2013, the fair value of the detachable warrant related to the November 2012 Financing was $ 188 and $ 402 respectively. The change in fair value was recognized as financial income in the Company's statement of comprehensive loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share and per share data)

NOTE 7:- SHAREHOLDERS' EQUITY (Cont.)

The initial fair value of the detachable warrant related to the December 2012 Financing, January 2013 Financing and other subsequent financings through May 2013 was $ 17, $ 383 and $ 76, respectively.

On June 30, 2013, the fair value of the detachable warrant related to December 2012 Financing, January 2013 Financing and other subsequent financings through May 2013 was $ 36, $ 583 and $ 179, respectively.

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b. Share option plan:

In August 2007, the Company adopted the share option plan (the "Plan"). The number of shares that may be issued upon exercise of options under the Plan shall not exceed 1,365,000 shares. In June 2013, the Plan was amended increasing the number of shares that may be issued by 2,500,000 to a total of 3,865,000. As of June 30, 2013, 3,096,010 ordinary shares are available for future issuance under the Plan.

The weighted-average estimated fair value of stock options granted during the six months ended June 30, 2012 was $ 1.09 per share using the Black-Scholes option pricing. No grants were made during the six months ended June 30, 2013. Fair value was estimated using the following weighted-average assumptions (annualized percentages):

	Six months ended June 30, 2012 (Unaudited)
Dividend yield	0%
Expected volatility	90%
Risk-free interest	0.69%-0.74%
Expected life	5.0%
Forfeiture rate	0%

The following is a summary of the Company's stock option activity related to employees and directors and related information for the period ended June 30, 2013:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share and per share data)

NOTE 7:- SHAREHOLDERS' EQUITY (Cont.)

	Number of options	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value
	Unaudited			
Outstanding at beginning of the period	770,527	$ 1.44		
Changes during the period:				
Forfeited	(55,000)	$ 1.56		
Options outstanding at end of the period	715,527	$ 1.39	6.5	$ 197
Vested and expected to vest	715,527	$ 1.39	6.5	$ 197
Options exercisable at end of the period	715,527	$ 1.39	6.5	$ 197

During the six months ended June 30, 2013, the Company recorded additional $ 57 (unaudited) in share based compensation expenses. As of June 30, 2013, there was no unrecognized compensation cost related to unvested share-based compensation arrangements granted under the Company's stock option plans.

c. Warrants and options to service providers:

The options and warrants outstanding as of June 30, 2013 that were granted to the Company's service providers are as follows:

Grant date	Number of options	Exercise Price	Expiration date
August 28, 2007 (1)	20,475	1.29	August 28, 2017
May 27, 2009 (1)	30,000	1.56	May 27, 2019
February 12, 2012 (3)	309,492	2.00	February 12, 2017
April 26, 2012 (2)	90,000	2.00	March 19, 2017
June 27, 2012 (4)	2,988	1.75	June 21, 2022
November 30, 2012 (5)	90,180	2.00	November 30, 2017
January 17, 2013 (5)	43,035	2.00	January 17, 2018
January 31, 2013 (5)	7,200	2.00	January 31, 2018
February 8, 2013 (5)	3,600	2.00	February 28, 2018
	596,970		

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share and per share data)

NOTE 7:- SHAREHOLDERS' EQUITY (Cont.)

1. In August 2007 and May 2009, the Company granted 20,475 and 30,000 fully vested options, respectively, to the pre-clinical development consultant. The fair value of the options was $ 29 (unaudited) and $ 33, respectively. Since the exercise price of such options is denominated in a currency that is different from the Company's functional currency, the Company accounts for such options as a liability. The fair value of the options was estimated each cut-off date using the Black-Scholes options valuation model.

   In June 2012, the Company increased and changed the denominated currency of the exercise price of the options that were issued in May 2009 from £ 0.8 to $ 1.56 resulting in the options being reclassified from a liability to equity. The Company accounted for this change as a modification in accordance with ASC 718. The Company calculated the incremental value of this modification. Since there was no incremental value, the Company only reclassified the related liability in the amount of $ 35 to additional paid-in capital.

   The changes in fair value of the outstanding liability was recorded as financial expense (income). The Company recorded financial income in the amount of $ 3 for each of the years ended December 31, 2012 and 2011. The Company also recorded insignificant financial income for the period ended June 30, 2013.

2. In 2011, the Company granted 35,000 fully vested warrants to the Finder (as defined below) under a consulting agreement that was signed in 2011 ("2011 Consulting Agreement"). The exercise price was $ 1 and the contractual life is five years. The fair value of the warrants in the amount of $ 45 was recorded to additional paid-in capital. In the months January and February 2012, the Company granted additional 10,000 fully vested warrants to the Finder under the 2011 Consulting Agreement. The exercise price was $ 1 per share and the contractual life is five years. The fair value of the warrants in the amount of $ 12 was recorded to additional paid-in capital.

   In April 2012, the Company modified the amount of warrants that were granted to the Finder from a total of 45,000 warrants to 90,000 warrants and also modified the exercise price from $ 1 to $ 2. The Company accounted for these changes as modifications in accordance with ASC 718. The Company calculated the incremental value of these modifications and recorded compensation cost in a total amount of $ 38 to additional paid-in capital

   On February 29, 2012, the Company entered into an agreement with an independent contractor (the "Finder"), for the purpose of introducing the Company to potential investors ("Finder's Agreement"). In the event that during the term of this agreement, an approved investor will consummate a cash investment, then the Finder shall be entitled to (i) a cash payment in an amount equal to 7% of the amount invested; and (ii) that number of ordinary shares of the Company issuable for a cash investment equal to 7% of the investment amount based upon the price per share pursuant to which the approved investor participated; less consulting consideration otherwise paid or payable to the Finder pursuant to a new consulting agreement that was signed in 2012 (the "2012 Consulting Agreement").

NOTE 7:- SHAREHOLDERS' EQUITY (Cont.)

Between March through June 2012, the Company committed to grant an additional 20,000 fully vested warrants to the Finder under the 2012 Consulting Agreement (the "Finder's Warrants"). The exercise price was $ 2 per share and the contractual life is five years. The board of directors did not ratify the grant of the Finder's Warrants. Pursuant to the terms of the Finder's Agreement, the Company only issued, in September 2012, 16,279 ordinary shares, £0.01 par value each, and is obligated to pay $ 28 in cash, in relation with the August Financing (the "August Finder's Fee"), since the consulting fees pursuant to 2012 Consulting Agreement were lower than August Finder's Fee. The Company recorded an amount of $ 52 of stock-based compensation expenses in the statement of comprehensive loss during the year ended December 31, 2012. After the August Financing, the Consulting Agreement was terminated.

3. On February 12, 2012, the Company settled part of an outstanding debt to a related party by issuance of fully vested warrants to purchase 309,492 ordinary shares, £ 0.01 par value each. See also Note 12.

4. On June 27, 2012, the Company granted 2,988 options that vested on December 27, 2012. The Company recorded compensation expense in the amount of $ 2 in the statement of comprehensive loss during the year ended December 31, 2012.

5. On August 23, 2012, the Company entered into an agreement with an agent (the "Agent") to advise the Company on a private placement offering and as a contact with potential financing sources for the Company (the "Agent Agreement"). The Company agreed to pay the Agent a cash transaction fee in the amount of between 7% - 8% of the amount of the financing; and warrants equal to 7% - 8% of the stock and warrants issued in the financing at an exercise price equal to the investor's warrant exercise price. If the Agent raises at least $ 5,000, then he is entitled to receive a total of 10% warrants, retroactively. The consideration that is paid to the Agent is treated as issuance expenses. Pursuant to the terms of the Agent Agreement, the Company issued 90,180 warrants and paid $ 120 in cash, for advisory services in relation with the November 2012 Financing and 53,835 warrants and paid $84 in cash, for advisory services in relation with the 2013 financings.

   In January 2013, the Company agreed that provided that the Agent raises an aggregate of at least $ 3,500 for the Company (the "Goal"), the agreement that was signed with the agent on November 30, 2012 shall be amended such that the warrants granted to the Agent in relation to the November Financing, will be eligible to a down-round anti-dilution protection. The Company will reclassify the warrants granted to the Agent in relation to the November 2012 Financing to a liability upon the achievement of the Goal. As of June 30, 2013, the Goal was not achieved.

NOTE 8:- SHORT-TERM CONVERTIBLE NOTES

On April 4, 2012, the Company completed a private placement under a Securities Purchase Agreement, dated April 3, 2012 (the "April 2012 purchase agreements"), by and among the Company and certain institutional accredited investors (the "Financing"). As part of the Financing, the Company sold an aggregate of $ 1,100 principal amount of convertible notes (the "Notes") and warrants to purchase an aggregate of 643,274 ordinary shares (the "Warrants"), for a total consideration of $ 1,000. The related issuance expenses were $ 110.

Each Note was convertible into shares at an initial conversion price of $1.71 per ordinary share. The conversion price of each Note was subject to standard anti-dilution adjustments. The conversion price was also subject to "full ratchet" anti-dilution adjustment, which would decrease the conversion price to equal the price at which the Company issues ordinary shares, to the extent that the issuance price or the deemed issuance price was less than the then-effective conversion price. The convertibility of each Note would be limited if, upon conversion, the holder thereof would beneficially own more than 4.9% of the Company's ordinary shares. The Notes had a maturity date of January 4, 2013 and did not bear interest and could be converted at anytime through the maturity date. The Notes were guaranteed by the subsidiaries and were secured on a first- priority basis by substantially all of the Company's assets, including the license agreement with Yissum and the co-owned patents.

The Notes contained various covenants, including covenants restricting the Company's ability to incur additional indebtedness, incur additional liens, make certain restricted payments or dividend payments, or transfer assets.

As part of the Financing, the Company issued to the investors warrants (the "Warrants") to purchase an aggregate of 643,274 ordinary shares. The Warrants have an initial exercise price of $1.71 per share, exercisable for a term of 5 years, subject to adjustment. On and after April 4, 2013, if a registration statement registering the ordinary shares underlying the Warrants was not effective, the holders of the Warrants might exercise their Warrants on a cashless basis.

The exercise price of the Warrants is subject to standard anti-dilution adjustments. In addition, the exercise price is also subject to "full ratchet" anti-dilution adjustment, similar to the Notes. To the extent the Company enters into a fundamental transaction (as defined in the Warrants and which includes, without limitation, entering into a merger or consolidation with another entity, selling all or substantially all of the assets, or a person acquiring 50% of the Company's voting shares), the holders will have the option to require the Company to repurchase the Warrants from the investor at its Black-Scholes fair value. Consequently, the Company accounts for the Warrants as a liability according to the provisions of ASC 815, "Derivatives and Hedging - Contracts in Entity's Own Equity" ("ASC 815").

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share and per share data)

NOTE 8:- SHORT-TERM CONVERTIBLE NOTES (Cont.)

In connection with the August Financing (as defined in Note 9b), the conversion price of the Notes and the exercise price of the Warrants was reduced to $ 1.64 and the number of Warrants was increased to 670,732 pursuant to the anti-dilution adjustments.

The Company applied ASC 470-20, "Debt with Conversion and Other Options" ("ASC 470-20"). In accordance with ASC 470-20, the Company first allocated the proceeds received to the detachable warrant, freestanding liability instrument that is measured at fair value at each reporting date, based on its fair value, with changes in the fair values being recognized in the Company's statement of operations as financial income or expense. The fair value of Warrants granted was valued by using the Black-Scholes call option pricing model. The anti-dilution rights of the Warrants were calculated by using Black-Scholes put option model using the same parameters as the warrants call option. Fair values were estimated using the following assumptions (annualized percentages):

	June 30,	
	2013	2012
	Unaudited	
Dividend yield	0%	0%
Expected volatility	76.2%	77.5%
Risk-free interest	0.22%	0.27%
Expected life	1.59 years	1.5 years
Forfeiture rate	0%	0%

The initial fair value of the detachable warrant on April 4, 2012 was $ 750. On December 31, 2012 and June 30, 2013, the fair value of the detachable warrant was $ 402 and $ 597 (unaudited), respectively. The change in fair value during the six months ended June 30, 2013 in the amount of $ 195 (unaudited) was recognized as financial expense in the Company's statement of operations.

The conversion feature was not defined as a derivative instrument according to ASC 815, since the Company's shares were not traded on the commitment date. The Company recognized the embedded beneficial conversion feature on the commitment date, in accordance with the guidelines of ASC 470-20. The beneficial conversion feature was measured by allocating a portion of the proceeds equal to the intrinsic value of the feature to additional paid-in-capital. The intrinsic value of the feature was calculated on the commitment date using the effective conversion price which had resulted subsequent to the allocation of the proceeds between the Notes and warrants. On the commitment date, the Company recorded a beneficial conversion feature, in accordance with Statement of Accounting Standard Codification No. 470-20, in the amount of $ 250.

The discount on the Notes was amortized according to the effective interest rate method over the life of the Notes. During the period ended June 30, 2013, the amortization expenses in respect to the discount of the Notes was $202.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share and per share data)

NOTE 8:- SHORT-TERM CONVERTIBLE NOTES (Cont.)

The issuance expenses that were allocated to the Warrants were recorded as financial expenses and the issuance expenses that were allocated to the Notes were capitalized and reported as deferred financing costs. The deferred financing cost were amortized over the life of the Notes using the effective interest rate. Since the issuance expenses that were allocated to the Notes were insignificant, all of the issuance expenses in the amount of $110 were recorded as financial expenses.

In connection with the September 2013 Financing, the exercise price of the Warrants was reduced pursuant to the anti-dilution adjustments. See also Note 10b.

NOTE 9:- RELATED PARTIES

a. The Chairman of the Company's board of directors is a senior partner in the law firm which represents the Company in intellectual property and commercial matters (the "Service Provider"). The service provider charges the Company for services he renders on an hourly basis. The balances and transactions with service provider were as follows:

Balances:

	June 30,		December 31,
	2013	2012	2012
	Unaudited		
Trade payables (*)	$ 925	$ 566	$ 718

*) On February 12, 2012, $ 309 out of the total outstanding balance owed to the Service Provider, who is also a related party, for services rendered until December 2011, was settled by the grant of fully vested warrants to purchase 309,492 ordinary shares, £ 0.01 par value each, of the Company at an exercise price of $ 2 per share and a life of five years.

Transactions:

	Six months ended June 30,	
	2013	2012
	Unaudited	
Amounts charged to general and administrative expense	$ 222	$ 127

b. According to an agreement signed in 2004, a retainer fee of $ 2.4 per quarter should be paid to one of the Company's directors for financial advisory services. As of June 30, 2013 and December 31, 2012, the Company had outstanding liability in the amount of $ 52 (unaudited) and $ 49, respectively, for such services.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share and per share data)

NOTE 9:- RELATED PARTIES (Cont.)

c. On February 13, 2011, the members of the board of directors unconditionally waived any accrued and unpaid director's compensation (other than for rights granted in respect of options) as of that date. A related amount of $ 73 was classified from other accounts payable to additional paid in capital.

In March 2012, the members of the board of directors unconditionally waived any director's cash compensation for their service from March 2012 and until the Company will receive an aggregate financing of at least $ 15,000 in the private placement issuances from March 20, 2013 onward.

NOTE 10:- SUBSEQUNT EVENTS

a. In September 2013, the Company completed a private placement by and among the Company and a certain investor. As part of the financing, the Company sold an aggregate of 45,150 ordinary shares at $ 2.00 per share and 22,575 Series A warrants, for gross proceeds of $ 90. The warrants and the shares are eligible to most favored nation terms and also to a price protection.

In relation to this financing, the Company will first allocate the proceeds received in the amount of $ 7 to the detachable warrant, that due to the most favored nation terms and in accordance with ASC 815 is being considered a freestanding liability instrument that is measured at fair value at each reporting date, based on its fair value, with changes in the fair values being recognized in the Company's statement of comprehensive loss as financial income or expense. The remaining proceeds amounted to $ 83 will be allocated to the shares and will be recorded to additional paid in capital.

b. On September 19, 2013, the Company entered into a Securities Purchase Agreement (the "September 2013 Financing") with certain institutional accredited investors, pursuant to which it agreed to sell, in a private placement, an aggregate of 21,958,302 ordinary shares for an aggregate purchase price of $12,516 (the "Offering"). The closing of the Offering occurred on September 24, 2013 (the "Closing Date"). The issuance costs in relation to the September 2013 Financing were $ 613.

As a result of price protection provisions from investment agreements with previous investors, (i) an aggregate of 4,046,692 additional ordinary shares were issued to previous investors in connection with this Offering and (ii) there will be an additional 1,259,092 ordinary shares issuable upon exercise of outstanding warrants.

In addition, the exercise price of the Warrants issued in the April 2012 purchase agreements with the convertible note was reduced to $0.57 per share, in accordance with the anti-dilution provisions contained in the April 2012 purchase agreements.

NOTE 10:- SUBSEQUNT EVENTS (Cont.)

The Company also entered into a registration rights agreement with the investors pursuant to which it agreed to file a registration statement to register the resale of the ordinary shares issued in the private placement no later than 30 days after the Closing Date.

The Company agreed to cause the registration statement to be declared effective within 60 calendar days after the Closing Date, or within 120 calendar days after the Closing Date in the event the Registration Statement is reviewed by the SEC. To the extent the registration statement is not filed by the filing deadline or declared effective by the agreed

upon effectiveness deadline, the Company agreed to pay to each investor holding registrable securities an amount in cash equal to one and one half percent (1.5%) of such investor's original investment amount on the date of such failure and on every 30-day anniversary of such failure until such failure has been cured, pro rated for periods totaling less than 30 days. In the event the Company fails to make such payments in a timely manner, such payments will bear interest at the rate of 1.0% per month (prorated for partial months) until paid in full.

c. On September 24, 2013 and October 23, 2013, the Company granted 760,000 and 200,000 stock options, respectively, to employees at an exercise price of $2.00 per share. In addition, on September 24, 2013 and October 2, 2013, the Company granted 510,000 and 100,000 stock options, respectively, to members of the board of directors at an exercise price of $2.00 per share.

fladgate

CELSUS THERAPEUTICS PLC
NEW ARTICLES OF ASSOCIATION
The Companies Act 2006
Public Company Limited by Shares
(As adopted by special resolution passed on
June 20th, 2013)

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Contents

Company no. 05252842

The Companies Act 2006

Public Company Limited by Shares

New Articles of Association

of

Celsus Therapeutics PLC
(the company)

(adopted by special resolution
passed on June 20th, 2013)

1. Preliminary

1.1 In these articles of association, the following words and expressions have the following meanings if not inconsistent with the subject or context:

Aggregate Relevant Capital Difference	shall have the meaning ascribed to it in regulation 5.7.3.
Aggregate Value	shall have the meaning ascribed to it in regulation 5.7.3.
Auditors	the auditors of the company from time to time.
Board	the board of directors present at a duly convened and quorate meeting or Directors at a duly authorised committee of Directors as the context requires.
Business Days	a day between Monday and Friday (excluding public holidays), inclusive, on which clearing banks are open in the City of London.
CA 2006	Companies Act 2006 as amended or re-enacted from time to time.
Converting Shareholder	shall have the meaning ascribed to it in regulation 5.6.1.
Default Shares	has the meaning as ascribed to it regulation 11.1.
Deferred A Shares	the deferred shares of £0.001 each in the capital of the company having the rights and subject to the restrictions set out in these articles.

Deferred B Shares	the deferred shares of £0.001 each in the capital of the company having the rights and subject to the restrictions set out in these articles.
Deferred C Shares	the deferred shares of £0.001 each in the capital of the company having the rights and subject to the restrictions set out in these articles.
Deferred Shares	the Deferred A Shares, Deferred B Shares and Deferred C Shares.]
Director	a director from time to time of the company.
Disenfranchisement Notice	a notice served by the company on the holder of Default Shares in accordance with regulation 11.1.
dividend	a dividend or bonus.
Drag Along Offer	has the meaning ascribed to such term in regulation 10.
executed	any mode of execution including signed, sealed or authenticated in some other way.
holder	in relation to shares in the company, a member whose name is entered in the register of members as the holder of those shares.
Listing/Listed	the shares becoming listed or traded on a Regulated Market.
Listing Price	shall have the meaning ascribed to it in regulation 5.7.1.
Listing Rules	the rules of the Regulated Market or another exchange on which the company has listed its shares for trading thereon as applicable.
member	any holder for the time being of shares in the capital of the company of whatever class.
month	calendar month.
NASDAQ	the Nasdaq Global Select Market, the Nasdaq Global Market or the Nasdaq Capital Market of Nasdaq Stock Market, Inc.
Net Aggregate Value	shall have the meaning ascribed to it in regulation 5.7.3.
Notice of Conversion	shall have the meaning ascribed to it in regulation 5.6.1.

Offer	a written offer to purchase all the issued and outstanding share capital of the company.
Offer Notice	has the meaning ascribed to such term in regulation 10.
Office	the registered office for the time being and from time to time of the company.
Operator	Euroclear UK and Ireland Limited or such other person as may for the time being be approved by HM Treasury as Operator under the Uncertificated Securities Regulations.
Ordinary Shares	the ordinary shares of £0.01 each of the capital of the company.
paid up	includes credited as paid up.
principal place	the place specified in the notice of any general meeting of the company at which the chairman of the meeting will preside.
Proposed Buyer	has the meaning ascribed to such term in regulation 10.
Regulated Market	has the meaning ascribed to it by the Financial Services and Markets Act 2000, the AIM market of the London Stock Exchange, the New York Stock Exchange, the NYSE Amex, NASDAQ and similar securities exchanges.
Relevant Capital Difference	in the case of: A Deferred A Share, 24.9p, A Deferred B Share, 59.9p, A Deferred C Share, 79.9p.
Relevant Date	five years from the date of issue of the relevant Deferred Shares, and with respect to the Deferred B Share five years and three months from such date.
Relevant Director	has the meaning ascribed to it in regulation 30.1.
Remaining Shareholder	has the meaning ascribed to such term in regulation 10.

Sale	1. the unconditional sale, disposal or transfer of all the shares (including any Deferred Shares convertible into shares) (except, if relevant, those that the purchaser owns immediately prior to the sale); or 2. 90 per cent. acceptances from shareholders when an Offer has been made.
Sale Price	shall have the meaning ascribed to it in regulation 5.7.1.
seal	the common seal of the company.
Secretary	the secretary of the company and, subject to the provisions of the Statutes, includes an assistant or deputy secretary and any person appointed by the Directors to perform any of the duties of the secretary.
Section 793 Notice	a notice served by the company under section 793, CA 2006.
Seller	has the meaning ascribed to such term in regulation 10.
Statutes	CA 2006, and all other statutes and secondary legislation for the time being in force relating to companies to the extent that they apply to the company.
Transaction	has the meaning ascribed to such term in regulation 10.
Uncertificated Securities Regulations	the Uncertificated Securities Regulations 2001 (SI 2001/3755).

1.2 Where the context so requires, words denoting the singular include the plural and vice versa, words denoting the masculine gender include the feminine, and persons include corporations, partnerships, other incorporated bodies and all other legal entities, with the necessary adaptation.

1.3 Words and expressions defined in CA 2006 have the same meanings in these articles, unless the context otherwise requires.

1.4 Where these articles refer to a relevant system in relation to any share, the reference is to the system in which that share is a participating security at the relevant time.

1.5 Any reference to a provision of any statute, statutory instrument, note, order or regulation is construed as a reference to such provision as amended, modified, consolidated or re-enacted from time to time. References to applicable law shall include references to Listing Rules and the securities laws of the United States and subdivisions thereof as far as they apply to the company under their provisions or these articles.

1.6 References in these articles to a share being in uncertificated form are references to that share being an uncertificated unit of a security.

1.7 The headings are inserted for convenience and do not affect the construction of these articles.

2. Share capital and variation of rights

2.1 The company's share capital as at the date of adoption of these articles is divided into Ordinary Shares and Deferred Shares. Subject to the provisions of the Statutes and to the authority of the company in general meeting, the Board has unconditional authority to allot, grant options over, issue warrants in respect of, offer or otherwise deal with or dispose of any shares of the company to such persons, at such times and generally on such terms and conditions as they may determine, including issuing shares with such preferred rights as resolved by the company in general meeting.

2.2 Subject to the provisions of the Statutes and to the authority of the company in general meeting, the company has power to purchase its own shares, including any redeemable shares.

2.3 When any shares are to be issued, the Board may vary the amount of calls to be paid and the time of payment of such calls as between the allottees of such shares.

2.4 If by the conditions of allotment of any share the whole or part of its issue price is payable by instalments, every such instalment will, when due, be paid to the company by the person who for the time being is the registered holder of the share.

2.5 The company may issue shares which are to be redeemed or are liable to be redeemed at the option of the company or the shareholders.

2.6 In addition to all other powers of paying commissions, the company may exercise the powers conferred by the Statutes of paying commissions to persons subscribing or procuring subscriptions for shares of the company, or agreeing so to do, whether absolutely or conditionally. Subject to the provisions of the Statutes and to any Listing Rules, any such commissions may be satisfied by the payment of cash or, by the allotment of fully or partly paid shares of the company or by any such combination. The company may also, on any issue of shares, pay such brokerage as may be lawful.

2.7 Except as required by law, no person will be recognised by the company as holding any share upon any trust, and except only as otherwise provided by these articles or as required by law or under an order of a court of competent jurisdiction, the company will not be bound by or recognise any equitable, contingent, future or partial interest in any share, or any interest in any fraction or part of a share, or any other right in respect of any share, except an absolute right to the entirety of it in the registered holder.

2.8 Subject to the Statutes and to regulation 2.1, if at any time the capital of the company is divided into different classes of shares, all or any of the rights or privileges attached to any class may be varied or abrogated either in such manner, if any, as may be provided by such rights, or in the absence of any such provision, with the consent in writing of the holders of at least three fourths of the nominal value of the issued shares of that class (excluding any shares of that class held as treasury shares), or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class, but not otherwise.

2.9 All the provisions of these articles relating to general meetings of the company, or to the proceedings at them, and the provisions of sections 284, 307 and 310, CA 2006 apply to every such separate meeting referred to in regulation 2.8, with any necessary modifications, except that the necessary quorum at any such meeting other than an adjourned meeting will be one or more persons present holding or representing by proxy at least one third in nominal value of the issued shares of the class in question (excluding any shares of that class held as treasury shares). The quorum at an adjourned meeting will be one person holding shares of the class in question or his proxy. Any holder of shares of the class in question present in person or by proxy may demand a poll.

2.10 The creation or issue of shares ranking equally with or subsequent to the shares of any class will not, unless otherwise expressly provided by these articles or the rights attached to such shares as a class, be deemed to be a variation of the rights of such shares.

2.11 The Deferred Shares have no rights (including, without limitation, rights to receive a dividend and voting rights) attached to them whatsoever except as set out in these articles.

2.12 Upon all of the Deferred Shares having been converted, or expiring, to the extent that members hold any Deferred Shares, or that there is any authorized but uninsured Deferred Shares, the Deferred Shares will convert into Ordinary Shares on the basis that the conversion price will be on the basis that an Ordinary Share has a value of £100 (one hundred pounds) per Ordinary Share, on the basis that each Deferred Share will have a value of £0.01 (so that 100,000 Deferred Shares will convert into one Ordinary Share). If the total value of any members' Deferred Shares equals less than one Ordinary Share, then fractions of shares will not be recognized and they will be cancelled in full. Otherwise, the company will issue the holder, or will convert the authorized Deferred Shares into the correct number of Ordinary Shares.

3. Certificates and shares

3.1 Every person, other than a person in respect of whom the company is not required by law to complete and have ready for delivery a certificate by virtue of section 778, CA 2006 whose name is entered as a member in the Register is entitled, without payment, to one certificate for all the shares of each class for the time being held by him or, upon payment of such reasonable out-of-pocket expenses as the Board may from time to time determine for every certificate after the first, to several certificates, each for one or more of his shares.

3.2 Every certificate will:

3.2.1 be issued within two months after allotment or the lodgement with the company of the transfer of the shares, not being a transfer which the company is for any reason entitled to refuse to register and does not register, unless the conditions of issue of such shares otherwise provide or except as exempted by virtue of section 778, CA 2006;

3.2.2 be issued under the official seal kept by the company by virtue of section 50, CA 2006 or otherwise in accordance with the Statutes and as the Board may, by resolution decide, either generally or in relation to any specific case or cases; and

3.2.3 specify the number and class and distinguishing numbers, if any, of the shares to which it relates, and the amount paid up on them.

3.3 The company is not bound to register more than four persons as the joint holders of any share or shares, except in the case of executors or trustees of a deceased member. In the case of a share held jointly by several persons, the company is not bound to issue more than one certificate for it. Delivery of a certificate for a share to one of several joint holders will be sufficient delivery to all.

3.4 Where a member transfers part of his holding of shares, he will be entitled to a certificate for the balance of his holding without charge.

3.5 Share certificates and certificates for debentures and, subject to the provisions of any instrument constituting or securing them, certificates issued under the official seal kept by the company by virtue of section 50, CA 2006, need not be signed or countersigned, or the signatures may be affixed to them by such mechanical means as may be determined by the Board.

3.6 If a share certificate is lost, destroyed, defaced or worn out, it will be renewed and, in case of loss or destruction, on such terms, if any, as to evidence and indemnity as the Board thinks fit, and, in case of defacement or wearing out, on delivery to the company of the old certificate.

3.7 The company will not make any charge for any certificate issued under regulation 3.6 but will be entitled to charge for any exceptional out-of-pocket expenses it incurred relating to the issue of any new certificate.

4. Uncertificated Shares

4.1 Under and subject to the Uncertificated Securities Regulations, the Board may permit title to shares of any class to be evidenced otherwise than by certificate and title to shares of such a class to be transferred by means of a relevant system and may make arrangements for a class of shares (if all shares of that class are in all respects identical) to become a participating class. Title to shares of a particular class may only be evidenced otherwise than by a certificate where that class of shares is at the relevant time a participating class. The Board may also, subject to compliance with the Uncertificated Securities Regulations, determine at any time that title to any class of shares may from a date specified by the Board no longer be evidenced otherwise than by a certificate or that title to such a class shall cease to be transferred by means of any particular relevant system.

4.2 In relation to a class of shares which is a participating class and for so long as it remains a participating class, no provision of these Articles shall apply or have effect to the extent that it is inconsistent in any respect with:

4.2.1 the holding of shares of that class in uncertificated form;

4.2.2 the transfer of title to shares of that class by means of a relevant system; or

4.2.3 any provision of the Uncertificated Securities Regulations;

and, without prejudice to the generality of this Article, no provision of these Articles shall apply or have effect to the extent that it is in any respect inconsistent with the maintenance, keeping or entering up by the Operator so long as that is permitted or required by the Uncertificated Securities Regulations, of an Operator register of securities in respect of that class of shares in uncertificated form.

4.3 Shares of a class which is at the relevant time a participating class may be changed from uncertificated to certificated form, and from certificated to uncertificated form, in accordance with and subject as provided in the Uncertificated Securities Regulations.

4.4 If, under these Articles or the Statutes, the company is entitled to sell, transfer or otherwise dispose of, forfeit, re-allot, accept the surrender of or otherwise enforce a lien over an uncertificated share, then, subject to these Articles and the Statute, such entitlement shall include the right of the Board to:

4.4.1 require the holder of the uncertificated share by notice in writing to change that share from uncertificated to certificated form within such period as may be specified in the notice and keep it as a certificated share for as long as the Board requires;

4.4.2 appoint any person to take such other steps, by instruction given by means of a relevant system or otherwise, in the name of the holder of such share as may be required to effect the transfer of such share and such steps shall be as effective as if they had been taken by the registered holder of that share; and

4.4.3 take such other action that the Board considers appropriate to achieve the sale, transfer, disposal, forfeiture, re-allotment or surrender of that share or otherwise to enforce a lien in respect of that share.

4.5 Unless the Board determines otherwise, shares which a member holds in uncertificated form shall be treated as separate holdings from any shares which that member holds in certificated form but a class of shares shall not be treated as two classes simply because some shares of that class are held in certificated form and others in uncertificated form.

4.6 Unless the Board determines otherwise or the Uncertificated Securities Regulations require otherwise, any shares issued or created out of or in respect of any uncertificated shares shall be uncertificated shares and any shares issued or created out of or in respect of any certificated shares shall be certificated shares.

4.7 The company shall be entitled to assume that the entries on any record of securities maintained by it in accordance with the Uncertificated Securities Regulations and regularly reconciled with the relevant Operator register of securities are a complete and accurate reproduction of the particulars entered in the Operator register of securities and shall accordingly not be liable in respect of any act or thing done or omitted to be done by or on behalf of the company in reliance on such assumption. Any provision of these Articles which requires or envisages that action will be taken in reliance on information contained in the register of members shall be construed to permit that action to be taken in reliance on information contained in any relevant record of securities (as so maintained and reconciled).

5. Conversion

5.1 Holders of Deferred Shares have the option to convert their Deferred Shares into ordinary shares of £0.01 each in the company on the occurrence of any one of the following events (each one a **Conversion Event**):

5.1.1 on a Listing on or before the Relevant Date; or

5.1.2 on a Sale on or before the Relevant Date, conditional on completion of such Sale and such new Ordinary Shares shall be included in such Sale.

5.2 Holders of Deferred Shares also have the option to convert their Deferred Shares into Ordinary Shares of £0.01 each in the company by giving 10 days' written notice to the company at any time before the Relevant Date whether or not Listing or Sale has occurred, such right expiring on the Relevant Date.

5.3 A Sale may not take place unless and until the proposed purchaser makes an offer to the holders of Deferred Shares to purchase their Deferred Shares in accordance with their terms.

5.4 The company must give prior notice to all holders of Deferred Shares of a Conversion Event as soon as it is reasonably able to do so in the event of a Sale or Listing, and no less than 30 days before the Relevant Date, and within 10 days of receipt of such notice, the holders of Deferred Shares must notify the company in writing of whether they wish to elect, conditional upon completion of a proposed Sale or Listing if appropriate, to convert their Deferred Shares into Ordinary Shares. Any failure to notify the company in accordance with this regulation will, in the absence of manifest error, be deemed to be an election not to convert and the company will have the right to purchase all Deferred Shares that do not, or are deemed not to, convert for the nominal value of such shares after the Relevant Date.

5.5 The price payable by the holder of the Deferred Shares to the company on a conversion pursuant to either regulation 5.5.1 or 5.5.2 will be:

5.5.1 on a Sale the Relevant Capital Difference, of which £0.09 per share will reflect the difference in par value between a Deferred Share and an Ordinary Share; or

5.5.2 on a Listing, the Relevant Capital Difference of which £0.09 per share will reflect the difference in par value between a Deferred Share and an Ordinary Share;

5.5.3 in the case of a Listing, following a Listing or on a Sale the company may allow holders of Deferred Shares to convert their Deferred Shares on a 'cashless' basis into shares by following the procedure set out in regulation 5.6 below, provided always that to the extent that the company's shares are traded on a Regulated Market the financial adviser to the company at the relevant time approves such 'cashless conversion'.

5.6 The procedure for 'cashless conversion' referred to in regulation 5.5.3 above is as follows:

5.6.1 a holder of Deferred Shares who wishes to convert their Deferred Shares (for the purposes of this regulation, the **Converting Shareholder**) will lodge a completed notice of conversion in the form set out in regulation 5.8 below (**Notice of Conversion**) and such share certificates relating to such Deferred Shares to be converted at the office of the registrars of the company from time to time. The Notice of Conversion will be registered to stipulate if the holder of the Deferred Shares wishes to carry out a cashless conversion;

5.6.2 the company will then, as soon as reasonably practicable allot the relevant number of shares in place of the Deferred Shares being converted;

5.7

5.7.1 The company will calculate the value of every individual share based upon the value of the company, such calculation based upon the price being offered for a share under the terms of the Sale (**Sale Price**) or if the conversion of the Deferred Shares is being carried out upon a Listing the price at which shares will be offered upon the Listing (**Listing Price**). For the purposes of a cashless conversion after a Listing, the Listing Price will be calculated as the average of the mid-market closing price of the shares for the five Business Days immediately before the Notice of Conversion is served.

5.7.2 In the event of a Sale, if the final Sale Price is not fully ascertainable at completion of the Sale (e.g. deferred consideration based upon a future event) any cashless conversion will take effect at the highest Sale Price which is ascertainable and from which the Sale Price will not fluctuate downwards.

5.7.3 The company will calculate the overall value of the Deferred Shares following the conversion based upon the Listing Price **(Aggregate Value**) and will then deduct from the Aggregate Value an amount equal to the Relevant Capital Difference multiplied by the number of Deferred Shares being converted by any holder of Deferred Shares (**Aggregate Relevant Capital Difference**). The sum remaining after the deduction of the Aggregate Relevant Capital Difference from the Aggregate Value (**Net Aggregate Value)** will be divided into the Listing Price and the result will equal the number of Shares which the Member converting Deferred Shares will be entitled to receive following such conversion.

5.7.4 The cashless conversion will take place immediately prior to the Sale and/or the Listing and will be conditional to completion of the Sale and/or the Listing.

5.8 Any Notice of Conversion will be substantially in the following form

To Celsus Therapeutics Plc (Company)

*We hereby give notice of our desire to convert [•] of our Deferred Shares into shares (**Ordinary Shares**) subject to the articles of association of the Company.*

*Please allot and issue to **[NAME] [the number of]** Ordinary Shares to which such number of Deferred Shares convert.*

Option 1

[We hereby enclose a cheque representing the Relevant Capital Difference per Deferred Share payable on conversion to an Ordinary Share]

Option 2

[Cashless Conversion] [We hereby request that this conversion be carried out as a Cashless Conversion]

Signature of Converting Shareholder
Date

5.9 Upon a conversion pursuant to this regulation 5 (**Conversion**) and subject to payment of the purchase price as calculated:

5.9.1 the holders of the relevant Deferred Shares will be requested to return or destroy their share certificates in respect of such Deferred Shares if they have not already done so;

5.9.2 the Board will direct that the necessary entries are made in the company's register of members.

6. Calls on shares

6.1 The Board may, subject to the provisions of these articles and to any conditions of allotment, from time to time make calls upon the members in respect of any money unpaid on their shares, whether on account of the nominal value of the shares or by way of premium. Each member will, subject to being given at least 14 days' notice specifying the time or times and place of payment, pay to the company at the time or times and place so specified the amount called on his shares.

6.2 A call may be payable by instalments and may be postponed or wholly revoked or in part revoked, as the Board may determine.

6.3 A call will be deemed to have been made at the time when the resolution of the Board authorising the call was passed.

6.4 The joint holders of a share are jointly and severally liable to pay all calls in respect of it and any one of such persons may give effective receipts for any return of capital payable in respect of such shares.

6.5 If by the terms of any admission document, prospectus, listing particulars or any other document relating to an issue of shares in the company or by the conditions of allotment, any amount is payable in respect of any shares by instalments, every such instalment will be payable as if it were a call duly made by the Board of which due notice had been given.

6.6 If a sum called in respect of a share is not paid before or on the day appointed for its payment, the person from whom the sum is due must pay interest on the sum at such rate as may be fixed by the terms of allotment of the share or, if no rate is fixed, at the appropriate rate, as defined by section 592, CA 2006, from the day appointed for its payment to the time of actual payment. The Board is at liberty to waive payment of such interest wholly or in part.

6.7 Any sum which by or pursuant to the terms of issue of a share becomes payable upon allotment or at any fixed date, whether on account of the amount of the share or by way of premium, will for all the purposes of these articles be deemed to be a call duly made and payable on the date on which, by or pursuant to the terms of issue, it becomes payable. In case of non payment, all the relevant provisions of these articles as to payment of interest, forfeiture or otherwise apply as if such sum had become payable by virtue of a call duly made and notified.

6.8 The Board may make arrangements on the issue of shares for a difference between the holders in the amount of calls to be paid and in the times of payment.

6.9 The Board may receive from any member willing to advance it all or any part of the money unpaid upon the shares held by him, beyond the sums actually called up on them, as a payment in advance of calls, and such payment in advance of calls will extinguish, so far as they extend, the liability upon the shares in respect of which it is advanced. The company may pay interest upon the money so received, or so much of it as from time to time exceeds the amount of the calls then made upon the shares in respect of which it has been received, at such rate as the member paying such sum and the Board agree. Any such payment in advance will not entitle the holder of the shares in question to participate in any dividend in respect of the amount advanced.

7. Transfer of shares

7.1 Any member may transfer any of his certificated shares by instrument of transfer in any usual form or in such other form as the Board approves. The instrument must be executed by or on behalf of the transferor and (except in the case of a share which is fully paid up) by or on behalf of the transferee but need not be under seal. The transferor is deemed to remain the holder of the share until the name of the transferee is entered in the Register in respect of it. Transfers of shares in uncertificated form will be effected by means of the relevant system in accordance with the Statutes, these articles and any resolution of the Board taken in compliance with the relevant Listing Rules applicable to the company's shares.

7.2 Subject to regulation 3, the Board may refuse to register a transfer of a certificated share unless the instrument of transfer:

7.2.1 is in respect of only one class of shares;

7.2.2 is in favour of not more than four joint transferees;

7.2.3 is duly stamped (if required);

7.2.4 is in compliance with all applicable rules and regulations; and

7.2.5 is lodged at the Office or such other place as the Board may decide accompanied by the certificate for the shares to which it relates (except in the case of a transfer by a recognised person to whom no certificate was issued) and such other evidence (if any) as the Board may reasonably require to prove the title of the transferor and the due execution by him of the transfer or, if the transfer is executed by some other person on his behalf, the authority of that person to do so.

7.3 The Board may in its absolute discretion and without giving any reasons, refuse to register any transfer of a certificated share which is not fully paid, but this discretion may not be exercised in such a way as to prevent dealings in the shares from taking place on an open and proper basis.

7.4 The Board may, in circumstances permitted by the Listing Rules, disapprove the transfer of a certificated share if the exercise of such power does not disturb the market in the shares.

7.5 The Board may refuse to register the transfer of an uncertificated share in any circumstances permitted by the Listing Rules if the exercise of such power does not disturb the market in the shares. For the avoidance of doubt, where the Listing Rules do not authorise the Board to refuse to register a transfer, than the Board shall have no such authority.

7.6 If the Board refuses to register a transfer of any share it must send to the transferee a notice of such refusal within whichever of the following periods is the earlier:

7.6.1 the time required by the Listing Rules; and

7.6.2 two months after the date on which the transfer was lodged with the company.

7.7 No fee will be charged for the registration of a transfer or other document relating to or affecting the title to any share or for making any entry in the Register affecting the title to any share.

7.8 Subject to regulation 43, all instruments of transfer which are registered may be retained by the company but any instrument of transfer which the Board refuses to register will (except in the case of suspected fraud) be returned to the person depositing it when notice of the refusal is given.

8. Forfeiture of shares

8.1 If a member fails to pay any call or instalment of a call before or on the date appointed for its payment the Board may, at any time after that date, serve a notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued on it and all expenses incurred by the company by reason of such non payment.

8.2 The notice will name a further date, not earlier than 14 days from the date of its service, on or before which, and the place where, the payment required by the notice is to be made, and will state that, in the event of non payment on or before the date, and at the place appointed, the shares on which the call was made will be liable to be forfeited.

8.3 If the requirements of any such notice are not complied with, any share in respect of which it has been given may at any time before payment of all calls, interest and expenses due in respect of it has been made, be forfeited by a resolution of the Board. Such forfeiture will include all dividends which have been declared on the forfeited shares and not actually paid before the forfeiture.

8.4 When any share has been forfeited, notice of the forfeiture will be served upon the person who was before forfeiture the holder of it, but no forfeiture will be in any manner invalidated by any omission to give such notice. Subject to the provisions of the Statutes, any share so forfeited will become the property of the company, no voting rights may be exercised in respect of it and the Board may within three years of such forfeiture sell, re-allot, or otherwise dispose of it in such manner as they think fit, either to the person who was before the forfeiture its holder, or to any other person, and either with or without any past or accruing dividends, and in the case of re-allotment, with or without any money paid on it by the former holder being credited as paid up on it. Any share not so disposed of within a period of three years from the date of its forfeiture will be cancelled in accordance with the provisions of the Statutes.

8.5 The Board may at any time, before any share so forfeited has been cancelled or sold, re-allotted or otherwise disposed of, annul the forfeiture upon such conditions as they think fit.

8.6 A person whose shares have been forfeited ceases to be a member in respect of the forfeited shares and must, if the shares are certificated shares, surrender to the company the certificate for them. That person remains liable to pay to the company all money which at the date of forfeiture was payable by him to the company in respect of the shares and interest on them in accordance with article 6.6, and the Board may enforce payment without any allowance for the value of the shares at the time of forfeiture.

8.7 A statutory declaration by a Director or the Secretary that a share has been duly forfeited on a date stated in the declaration, is conclusive evidence of the facts stated in it as against all persons claiming to be entitled to the share. Such declaration and the receipt by the company of the consideration, if any, given for the share on its sale, re-allotment or disposal, together with the certificate, if any, for the share delivered to a purchaser or allottee of it, subject to the execution of a transfer if so required, constitutes a good title to the share. Where a forfeited share held in uncertificated form is to be transferred to any person, the Board may exercise any of the company's powers to effect the transfer of the share to that person. The company may receive any consideration for the share on its disposal. The person to whom the share is sold, re-allotted or disposed of will be registered as its holder and will not be bound to see to the application of any consideration, nor will his title to the share be affected by any irregularity or invalidity in the proceedings in reference to the forfeiture, sale, re-allotment or disposal of the share.

8.8 The Board may accept the surrender of any share liable to be forfeited under these articles and in any such case any reference in these articles to forfeiture includes surrender.

9. Transmission of shares

9.1 If a member dies, the survivors or survivor (where the deceased was a joint holder) and the executors or administrators of the deceased (where he was a sole or only surviving holder) are the only persons recognised by the company as having any title to his interest in the shares. Nothing in this regulation will release the estate of a deceased joint holder from any liability in respect of any share jointly held by him.

9.2 Except as provided in these regulations, any person becoming entitled to a share in consequence of the death or bankruptcy of a member may, upon producing such evidence as to his title as may be required by the Board and subject to any provisions contained within the Listing Rules, elect either to be registered himself as the holder of the share or to have some person nominated by him registered as its holder.

9.3 If the person becoming entitled by transmission to a certificated share elects to be registered himself, he must deliver or send to the company a notice in writing signed by him stating that he so elects. If he elects to have another person registered, and the share is a certificated share, he must signify his election by signing a transfer of the share in favour of that person. If the person elects to be registered or have another person registered, and the share is an uncertificated share, he must take any action as the Board may require including, without limitations, the execution of any document and the giving of any instruction by means of a relevant system to enable himself or that other person to be registered as the holder of the share. All the limitations, restrictions and provisions of these regulations relating to the right to transfer and the registration of transfers of shares apply to any such notice or transfer as if the death or bankruptcy of the member had not occurred and the notice or transfer were a transfer signed by such member.

9.4 A person becoming entitled to a share in consequence of the death or bankruptcy of a member will, upon supply to the company of such evidence as the Board may reasonably require as to his title to the share, be entitled to receive and may give a discharge for all benefits arising or accruing on or in respect of the share, but he will not be entitled in respect of that share to receive notices of or to attend or vote at meetings of the company, or, except as previously stated, to any of the rights or privileges of a member until he has become a member in respect of the share. The Board may at any time give notice requiring any such person who is the holder of a fully paid up share to elect either to be registered himself or to transfer the share and, if within 60 days the notice is not complied with, such person will be deemed to have elected to be registered as a member in respect of the share and may be registered accordingly.

10. Drag along

10.1 If any member or members (each a **Seller**) holding in aggregate 75 per cent. or more of the issued ordinary shares in the company wish to transfer the entire legal and beneficial interest in all of their ordinary shares, whether in one transaction or in a series of related transactions and whether by takeover offer, private treaty or otherwise (**Transaction**) to a third party (**Proposed Buyer**), a Seller may require all members who are not Sellers (**Remaining Shareholders**) to offer the ordinary shares held by them to the Proposed Buyer:

10.2 the Proposed Buyer will give a written notice (**Offer Notice**) to all Remaining Shareholders containing a binding written offer (**Drag Along Offer**) to acquire the entire legal and beneficial interest in all of the Remaining Shareholders' ordinary shares.

10.3 The Offer Notice must specify:

10.3.1.1 the identity of the Proposed Buyer;

10.3.1.2 the identity of the Seller(s) and the numbers and classes of shares held;

10.3.1.3 the consideration payable under the Drag Along Offer per ordinary share, which must be the same as the maximum price as was payable to any Seller per ordinary share under the terms of the Transaction;

10.3.1.4 that no Remaining Shareholder will be obliged to assume any obligation or give any warranty in connection with the sale of his ordinary shares other than that he sells with full title guarantee and that he will execute and deliver such documents and instruments as may be necessary or reasonably required by the Proposed Buyer to complete the sale of his only shares;

10.3.1.5 that completion of the sale and purchase of ordinary shares pursuant to the Drag Along Offer will take place at the same time, which will not be later than 60 days following the latest time for acceptance of the Drag Along Offer, as completion of the sale and purchase of the Sellers' ordinary shares pursuant to the Transaction;

10.3.1.6 the period, which will not be less than 14 days following the giving of the Offer Notice, the Drag Along Offer is open for acceptance by Remaining Shareholders; and

10.3.1.7 the other terms of and terms to the Drag Along Offer, which must be, in the reasonable opinion of the board, otherwise not less favourable to Remaining Shareholders as those in relation to the Transaction.

10.4 If on the expiry of the 14 day period referred to in article 10.3.1.6, there are Remaining Shareholders who have not accepted the Drag Along Offer:

10.5 the Proposed Buyer may, by written notice to those Remaining Shareholders, require them to sell all of their legal and beneficial interest in ordinary shares in the company to the Proposed Buyer on the terms and subject to the conditions of the Drag Along Offer, and

10.6 subject to the giving of such notice, each such Remaining Shareholder will be obliged to transfer the whole of its legal and beneficial interest in the ordinary shares held by it to the Proposed Buyer on the terms of the Drag Along Offer.

10.7 The obligation to sell the ordinary shares pursuant to paragraph 10.4 will lapse if the sale of the ordinary shares is not completed within 60 days following the latest time for acceptance of the Drag Along Offer.

10.8 If any Remaining Shareholder fails to complete the transfer the whole of its legal and beneficial interest in the ordinary shares held by it in accordance with the terms of the Drag Along Offer, the chairman of the company or, failing him, one of the directors, or some other person nominated by a resolution of the board, may on behalf of such Remaining Shareholder**:**

10.8.1 complete, execute and deliver in that Remaining Shareholder's name all such documents and instruments as may be necessary or reasonably required by the Proposed Buyer to complete the sale of his ordinary shares (including, without limitation, a stock transfer form and an indemnity, in a form reasonably satisfactory to the board, in respect of any missing certificate) and to give a warranty that it sells with full title guarantee;

10.8.2 receive the consideration payable to such Remaining Shareholder as its nominee and give a good discharge for it; and

10.8.3 subject to the transfer being duly stamped, enter the Proposed Buyer in the register of members as the holders of the ordinary shares purchased by it.

11. Disclosure of interests in shares

11.1 Where the company serves a Section 793 Notice on a member, or another person whom the company knows or has reasonable cause to believe to be interested in shares held by that member, and the member or other person fails in relation to any such shares including any shares issued to such member after the date of the Section 793 Notice in respect of those shares (**Default Shares**) to give the company the information required within 14 days following the date of service of the Section 793 Notice, the Board may serve a Disenfranchisement Notice on the holder of such Default Shares.

11.2 Upon service of a Disenfranchisement Notice on a holder the sanctions set out in regulations 11.3 and 11.4 apply, unless the Board otherwise determines.

11.3 The Member is not entitled in respect of the Default Shares to be present or to vote (either in person or by proxy) at a general meeting or at a separate meeting of the holders of a class of shares or on a poll or to exercise other rights conferred by membership in relation to the meeting or poll.

11.4 Where the Default Shares represent at least 0.25 per cent. in nominal value of the issued shares of their class (calculated exclusive of any shares held as treasury shares):

11.4.1 a dividend (or any part of a dividend) or other amount payable in respect of the Default Shares will be withheld by the company and no interest will be payable on it, and the member is not entitled to elect, under regulation 35.12, to receive shares instead of a dividend; and

11.4.2 no transfer of any of the Default Shares will be registered unless:

11.4.2.1 the transfer is an excepted transfer; or

11.4.2.2 the member is not himself in default in supplying the information required and proves to the satisfaction of the Board that no person in default in supplying the information required is interested in any of the relevant shares;

11.4.3 the registration of the Transfer is regulated by any regulations binding on the company in respect of Uncertificated Shares.

11.5 The sanctions under regulations 11.1 to 11.4 cease to apply seven days after the earlier of receipt by the company of:

11.5.1 notice of registration of an excepted transfer, in relation to the Default Shares; and

11.5.2 all information required by the Section 793 Notice, in a form satisfactory to the Board, in relation to any Default Shares.

11.6 Where the company issued a Section 793 Notice to another person on the basis of information obtained from a member in respect of a share held by the member, it must at the same time send a copy of the Section 793 Notice to the member, but the accidental omission to do so, or the non receipt by the member of the copy, does not invalidate or otherwise affect the application of regulations 11.1 to 11.4.

11.7 For the purpose of regulations 11.1 to 11.6:

11.7.1 **interested** has the meaning given to it in sections 820 to 825, CA 2006;

11.7.2 reference to a person having failed or defaulted to give the company the information required by a Section 793 Notice, includes:

11.7.2.1 reference to his having failed or refused to give all or any part of it; and

11.7.2.2 reference to his having given information which he knows to be false in a material particular or having recklessly given information which is false in a material particular;

11.7.3 **excepted transfer** means, in relation to shares held by a member:

11.7.3.1 a transfer pursuant to acceptance of a takeover bid for the company as defined in regulation 2 of the Takeovers Directive (no. 2004/25/EC);

11.7.3.2 a transfer in consequence of a sale made through a recognised investment exchange (as defined in the Financial Services and Markets Act 2000) or another stock exchange outside the United Kingdom on which shares in the capital of the company are normally traded; or

11.7.3.3 a transfer which is shown to the satisfaction of the Board to be made in consequence of a bona fide sale of the whole of the beneficial interest in the shares to a person who is unconnected with the member and with any other person appearing to be interested in the shares.

11.8 Regulations 11.1 to 11.7 are in addition to and without prejudice to the Statutes.

12. Increase of capital

12.1 The company may from time to time by ordinary resolution increase its capital by such sum, to be divided into shares of such amounts and carrying such rights, as the resolution may prescribe.

12.2 All new shares are subject to the provisions of these articles with reference to payment of calls, transfer, transmission and otherwise. Unless otherwise provided by these articles, by the resolution creating the new shares or by the conditions of issue, the new shares will upon issue be Ordinary Shares.

13. Alteration of capital

13.1 The company may by ordinary resolution:

13.1.1 consolidate and divide all or any of its share capital into shares of larger nominal value than its existing shares;

13.1.2 subdivide its shares, or any of them, into shares of smaller nominal value subject nevertheless to the Statutes, and so that the resolution by which any share is subdivided may determine that, as between the holders of the shares resulting from such subdivision, one or more of the shares may have any such preferred or other special rights over or may have such deferred rights or be subject to any such restrictions as compared with the others as the company has power to attach to new shares; and

13.1.3 cancel any shares which, at the date of the passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its share capital by the amount of the shares so cancelled.

13.2 The company may from time to time by special resolution reduce its share capital, capital redemption reserve fund, any share premium account or any other non distributable reserves in any manner authorised by the Statutes and diminish the amount of its share capital by the amount of the shares so cancelled.

13.3 If any shares are consolidated or consolidated and then divided, the Board has power to deal with any fractions of shares which result. If the Board decides to sell any shares representing fractions, it can do so for the best price reasonably obtainable and distribute the net proceeds of sale among members in proportion to their fractional entitlements. The Board can arrange for any shares representing fractions to be entered in the register of members as certificated shares if they consider that this makes it easier to sell them. The Board can sell those shares to anyone, including the company if the legislation allows, and may authorise any person to transfer or deliver the shares to the buyer or in accordance with the buyer's instructions. The buyer shall not be bound to see to the application of the purchase money, nor shall his title to the share be affected by any irregularity or invalidity in the proceedings in reference to the sale.

14. General meetings

14.1 Subject to the provisions of CA 2006, the annual general meeting will be held at such time and place or places as the Board may determine.

14.2 The Board may call a general meeting whenever they think fit, and must do so when required under Chapter 3, CA 2006 or under the Listing Rules and in accordance thereof. General meetings must also be convened on such requisition, or in default may be convened by such requisitionists or by court order, as provided by section 305, CA 2006 or under the Listing Rules, and in accordance thereof.

15. Notice of general meetings

15.1 Subject to the provisions of section 307, CA 2006, an annual general meeting must be called by at least 21 days' notice, and all other general meetings must be called by at least 14 days' notice. The notice is exclusive of the day on which it is served, or deemed to be served, and of the day for which it is given.

15.2 Every notice must specify the principal place, the day and the time of meeting, and, in the case of special business, the general nature of such business, and in the case of an annual general meeting, must specify the meeting as such.

15.3 In the case of any general meeting the Board may (notwithstanding the specification in the notice of the general meeting) make arrangements for simultaneous attendance and participation at other places by members and proxies entitled to attend the general meeting but excluded from the principal place due to lack of space. Such arrangements for simultaneous attendance at the meeting may include arrangements regarding the level of attendance at the other places but they must operate so that any members and proxies excluded from attendance at the principal place are able to attend at one of the other places. For the purpose of all other provisions of these articles any such meeting will be treated as being held and taking place at the principal place. So as to facilitate the organisation and administration of any general meeting to which such arrangements apply, the Board may arrange for the issue of tickets, on a basis intended to afford to all members and proxies entitled to attend the meeting an equal opportunity of being admitted to the principal place, or impose some other random means of selection or otherwise as it, in its absolute discretion, considers appropriate. The Board may from time to time vary any such arrangements or make new arrangements in their place and the entitlement of any member or proxy to attend a general meeting at the principal place will be subject to such arrangements as are, for the time being, in force whether stated in the notice of the meeting to apply to that meeting or notified to the members concerned subsequent to the despatch of the notice of the meeting.

15.4 Notices must be given in the manner stated in these articles to all the members holding legal title to shares held by the members, other than those who under the provisions of these articles or under the rights attached to the shares held by them are not entitled to receive the notice, to each of the Directors and to the auditors.

15.5 Notwithstanding that it is called by shorter notice than that specified in regulation 15.1, a meeting of the company is deemed to have been duly called if it is so agreed:

15.5.1 in the case of a meeting called as an annual general meeting, by all the members entitled to attend and vote at it; or

15.5.2 in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right (excluding any shares held as treasury shares).

15.6 If the Board, in its absolute discretion, considers that it is impractical or unreasonable for any reason to hold a general meeting on the date or at the time or place specified in the notice calling the general meeting, it may postpone the general meeting to another date, time and/or place.

15.7 The accidental omission to give notice of a meeting or resolution or to send any notification when required by the Statutes or these articles relating to the publication of a notice of meeting on a website or (in cases where proxies are sent out with the notice) the accidental omission to send a proxy to, or the non receipt of any such notice, resolution, notification or proxy by, any person entitled to receive it will not invalidate the proceedings at that meeting.

15.8 In every notice calling a meeting of the company or any class of the members of the company, there will appear with reasonable prominence a statement that a member entitled to attend and vote is entitled to appoint one or more proxies to exercise all the member's rights and to attend, speak and vote instead of him, and that a proxy need not also be a member.

15.9 Where special notice of a resolution is required by any provision contained in CA 2006, the resolution is not effective unless notice of the intention to move it has been given to the company not fewer than 28 days, or such shorter period as CA 2006 permits, before the meeting at which it is moved, and the company must give to its members notice of any such resolution as required by and in accordance with the provisions of CA 2006.

15.10 It is the duty of the company, subject to the provisions of CA 2006, on the requisition in writing of such number of members as is specified in CA 2006 and, unless the company otherwise resolves, at the expense of the requisitionists:

15.10.1 to give to members entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting; and

15.10.2 to circulate to members entitled to have notice of any general meeting sent to them, a statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

16. Proceedings at general meetings

16.1 The Board may direct that members or proxies wishing to attend any general meeting must submit to such searches or other security arrangements or restrictions as the Board considers appropriate in the circumstances and may, in its absolute discretion, refuse entry to, or eject from, such general meeting any member or proxy who fails to submit to such searches or otherwise to comply with such security arrangements or restrictions.

16.2 All business transacted at a general meeting other than an annual general meeting is deemed special.

16.3 All business transacted at an annual general meeting is also deemed special, with the exception of declaring dividends, the consideration of the accounts and balance sheet and the reports of the Directors and auditors and other documents required to be annexed to the balance sheet, the appointment of Directors in the place of those retiring by rotation or otherwise, the reappointment of the retiring auditors, other than retiring auditors who have been appointed by the Board to fill a casual vacancy, the fixing of the remuneration of the auditors, and the giving, varying, revoking or renewing of any authority or power for the purposes of section 551, CA 2006.

16.4 No business may be transacted at any general meeting unless a quorum is present. Except as otherwise provided in these articles, two persons entitled to vote at the meeting each being a member or a proxy for a member or a representative of a corporation which is a member, duly appointed as such in accordance with the Statutes, holding in the aggregate at least 15 per cent. of the company's outstanding share capital, shall constitute a quorum. If at any time the company only has one member, such member in person, by proxy or if a corporation by its representative, shall constitute a quorum.

16.5 If within half an hour from the time appointed for the meeting a quorum is not present, the meeting, if convened on the requisition of, or by, members, will be dissolved. In any other case, it will stand adjourned to the same day in the next week at the same time and place, or to such other day and at such other time and place as the Board may determine.

16.6 If, at such adjourned meeting, a quorum is not present within 15 minutes from the time appointed for holding the meeting, the member or members present in person or by proxy and entitled to vote will have power to decide upon all matters which could properly have been disposed of at the meeting as originally convened. When a meeting is adjourned for 30 days or more, the company must give at least seven clear days' notice, specifying the place, the day and the time of the adjourned meeting and that the member or members present will form a quorum, but it will not be necessary to specify in such notice the nature of the business to be transacted at the adjourned meeting. Except as stated, it will not be necessary to give any notice of an adjournment.

16.7 The chairman, if any, of the Board, or in his absence some other Director nominated by the chairman in writing, will preside as chairman at every general meeting of the company, but if at any meeting neither the chairman nor such other Director is present within 15 minutes after the time appointed for holding the meeting, or if neither of them is willing to act as chairman, the Directors present may choose some Director present to be chairman, or if no Director is present, or if all the Directors present decline to take the chair, the members present may choose some member present to be chairman.

16.8 The chairman may, with the consent of any meeting at which a quorum is present, and must if so directed by the meeting, adjourn the meeting from time to time and from place to place, but no business may be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting as originally convened.

16.9 At any general meeting, a resolution put to the vote of the meeting is decided on a show of hands, unless before or upon the declaration of the result of the show of hands a poll is demanded:

16.9.1 by the chairman; or

16.9.2 by not fewer than five members present in person or by proxy and entitled to vote at the meeting; or

16.9.3 by a member or members representing not less than one tenth of the total voting rights of all the members having the right to vote at the meeting; or

16.9.4 by a member or members holding shares of the company conferring a right to vote at the meeting, being shares on which an aggregate sum has been paid up equal to not less than one tenth of the total sum paid up on all the shares conferring that right.

16.10 Unless a poll is so demanded, a declaration by the chairman that a resolution has been carried, or carried unanimously or by a particular majority, or lost, or not carried by a particular majority, and an entry to that effect in the book containing the minutes of the proceedings of general meetings of the company is conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

16.11 The instrument appointing a proxy to vote at a meeting is deemed also to confer authority to demand or join in demanding a poll and to vote on a poll on the election of a chairman and on a motion to adjourn a meeting. For the purposes of regulation 16.9, a demand by a person as proxy for a member is the same as a demand by the member.

16.12 If any votes are counted which ought not to have been counted or might have been rejected, or if any votes are not counted which ought to have been counted, the error will not vitiate the result of the voting unless it is pointed out at the same meeting, or at any adjournment of it, and it is in the opinion of the chairman of the meeting of sufficient magnitude to vitiate the result of the voting.

16.13 In the case of a resolution duly proposed as a special resolution no amendment, other than an amendment to correct a patent error, may be considered or voted upon. In the case of a resolution duly proposed as an ordinary resolution, no amendment, other than an amendment to correct a patent error, may be considered or voted upon unless, either at least 48 hours prior to the time appointed for holding the meeting or adjourned meeting at which such ordinary resolution is to be proposed notice in writing of the terms of the amendment and intention to move it is lodged at the Office, or the chairman, in his absolute discretion, decides that it may be considered or voted upon. If an amendment is proposed to any resolution under consideration but is ruled out of order by the chairman of the meeting the proceedings on the substantive resolution will not be invalidated by any error in such ruling.

16.14 Subject to the provisions of regulation 16.15, if a poll is duly demanded, it will be taken in such manner as the chairman may direct, including the use of ballot or voting papers or tickets, and the result of a poll will be deemed to be the resolution of the meeting at which the poll was demanded. The chairman may, in the event of a poll, appoint scrutineers, who need not be members, and may fix some place and time for the purpose of declaring the result of the poll.

16.15 A poll demanded on the election of a chairman or on a question of adjournment must be taken immediately. A poll demanded on any other question must be taken immediately or at such time and place as the chairman directs, not being more than 30 days from the date of the meeting or the adjourned meeting at which the poll was demanded. No notice need be given of a poll not taken immediately if the time and place at which it is to be taken are announced at the meeting at which it is demanded. In any other case, at least seven days' notice must be given specifying the time and place at which the poll is to be taken.

16.16 In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting at which the show of hands takes place or at which the poll is demanded is entitled to a further or casting vote.

16.17 The demand for a poll will not prevent the continuance of a meeting for the transaction of any business other than the question on which the poll has been demanded.

16.18 A demand for a poll may, before the poll is taken, be withdrawn but only with the consent of the chairman, and a demand so withdrawn will not be taken to have invalidated the result of a show of hands declared before the demand was made. If a poll is demanded before the declaration of the result of a show of hands and the demand is duly withdrawn with the consent of the chairman, the meeting will continue as if the demand had not been made.

17. Votes of members

17.1 Subject to any special rights or restrictions as to voting attached to any share by or in accordance with these articles, every member entitled to vote, whether personally present at a meeting or represented by one or more duly appointed proxies or one or more duly authorised corporate representatives, has one vote on both a show of hands and on a vote by poll for each share of which he is the holder. Voting shall be on a count of votes.

17.2 In the case of joint holders of a share, the person whose name appears first in the Register is entitled, to the exclusion of the other joint holders, to vote, whether in person or by proxy, in respect of the share.

17.3 A member who is a patient within the meaning of the Mental Health Act 1983 may vote, whether on a show of hands or on a poll, by his receiver, curator bonis, or other person appointed by such court (who may on a poll vote by proxy) provided that such evidence as the Board may require of the authority of the person claiming to vote has been deposited at the Office not fewer than 48 hours before the time for holding the meeting or adjourned meeting at which such person claims to vote.

17.4 No member is entitled to be present or to be counted in the quorum or vote, either in person or by proxy, at any general meeting or at any separate meeting of the holders of a class of shares or on a poll or to exercise other rights conferred by membership in relation to the meeting or poll, unless all calls or other monies due and payable in respect of the member's share or shares have been paid. This restriction ceases on payment of the amount outstanding and all costs, charges and expenses incurred by the company by reason of non payment.

17.5 No objection may be raised to the qualification of any voter except at the meeting or adjourned meeting at which the vote objected to is given or cast, and every vote not disallowed at such meeting will be valid for all purposes. Any such objection made in due time will be referred to the chairman of the meeting, whose decision is final, binding and conclusive.

17.6 On a poll, votes may be given either in person or by proxy and a member entitled to more than one vote need not, if he votes, use all his votes or cast all the votes he uses in the same way.

17.7 Any person, whether a member or not, may be appointed to act as a proxy. A member may appoint more than one proxy to attend the same meeting so long as each proxy is appointed to exercise the rights attached to a different share or shares held by that member. Deposit of an instrument of proxy does not preclude a member from attending and voting in person at the meeting or any adjournment of it.

17.8 The appointment of a proxy must be in any usual form, or such other form as may be approved by the Board, and must be signed by the appointor or by his agent duly authorised in writing or if the appointor is a corporation, must be either under its common seal or signed by an officer or agent so authorised. If the appointment is in electronic form, it must be executed on behalf of the appointor. The Board may, but will not be bound to, require evidence of authority of such officer or agent. An instrument of proxy need not be witnessed.

17.9 The appointment of a proxy and (if required by the Board) any power of attorney or other authority under which it is executed, or a certified copy of such authority, must be delivered to the Office, or such other place specified for that purpose in the notice calling the meeting, or in any such proxy (or, where the appointment of the proxy was contained in an electronic communication, at the electronic address of the company), not fewer than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote. In default, the proxy will not be valid. The appointment of a proxy to vote at any meeting and deposited as set out in this regulation will authorise the proxy so appointed to vote on any poll taken or demanded at such meeting or at any adjournment of such meeting.

17.10 In relation to any shares which are held in uncertificated form, the Board may from time to time permit appointments of a proxy to be made by means of an electronic communication in the form of an uncertificated proxy instruction (that is, a properly authenticated dematerialised instruction, or other instruction or notification, which is sent by means of the relevant system concerned and received by such participant in that system acting on behalf of the company as the Board may prescribe, in such form and subject to such terms and conditions as may from time to time be prescribed by the Board and subject always to the facilities and requirements of the relevant system concerned). The Board may in a similar manner permit supplements to, or amendments or revocations of, any such uncertificated proxy instruction to be made by like means. The Board may in addition prescribe the method of determining the time at which any such properly authenticated dematerialised instruction or other instruction or notification is to be treated as received by the company or such participant. The Board may treat any such uncertificated proxy instruction which purports to be or is expressed to be sent on behalf of a holder of a share as sufficient evidence of the authority of the person sending that instruction to send it on behalf of that holder.

17.11 No appointment of a proxy will be valid after the expiry of 12 months from the date of its execution, or its receipt by the participant in the relevant system concerned acting on behalf of the company, except at an adjourned meeting or on a poll demanded at a meeting or an adjourned meeting in cases where the meeting was originally held within 12 months from such date.

17.12 A vote given in accordance with the terms of a proxy or by the duly authorised representative of a corporate member or a poll demanded by proxy or by the duly authorised representative of a corporate member will be valid, notwithstanding, in the case of a proxy, the previous death or insanity of the principal, or the revocation of the instrument of proxy or of the authority under which the instrument of proxy was executed, provided that no notice in writing (including by electronic communication) of such death, insanity or revocation has been received by the company at the Office at least two hours before the commencement of the meeting or adjourned meeting at which the proxy is used.

17.13 For the purposes of regulations 17.9 to 17.12 electronic address includes in the case of any uncertificated proxy instructions an identification number of a participant in the relevant system concerned.

17.14 The Board may at the expense of the company send, by post or otherwise, to the members proxies, with or without provision for their return prepaid, for use at any general meeting or at any separate meeting of the holders of any class of shares of the company either in blank or nominating in the alternative any one or more of the Directors or any other persons. If, for the purpose of any meeting, invitations to appoint as proxy a person, or one of a number of persons, specified in the invitations are issued at the company's expense, they will be issued to all, and not to some only, of the members entitled to be sent a notice of the meeting and to vote at it by proxy.

17.15 In calculating any periods mentioned in this regulation 17 no account will be taken of any part of a day that is not a working day (within the meaning of section 1173, CA 2006).

18. Corporations acting by representatives

Any corporation which is a member of the company may by resolution of its directors or other governing body authorise any person or persons as it thinks fit to act as its representative or representatives at any meeting of the company or of any class of members of the company. The person or persons so authorised will be entitled to exercise the same powers on behalf of the corporation which he or they represent as the corporation could exercise if it were an individual member of the company and the corporation will, for the purposes of these articles, be deemed to be present in person at any such meeting if any person so authorised is present at it.

19. Directors

19.1 Unless otherwise determined by the company in general meeting, the number of Directors is not subject to a maximum but must not be fewer than three.

19.2 The Directors from time to time will be categorised into three classes, as follows:

19.2.1 Class A Directors, appointed as Director of the company for a one-year term (subject to reappointment in accordance with these articles);

19.2.2 Class B Directors, appointed as Director of the company for a two-year term (subject to reappointment in accordance with these articles); and

19.2.3 Class C Directors, appointed as Director of the company for a three-year term (subject to reappointment in accordance with these articles).

19.3 Upon appointment a Director will be categorised into a specific class of Directors A Director of any class, can at the end of his term be re-appointed as a director in accordance with regulation 24, and at the time of such reappointment will be categorised into the appropriate class (which can be a different class from the one in which such director was previously categorized).

19.4 A Director is not required to hold any share qualification but is nevertheless entitled to attend and speak at any general meeting or at any separate meeting of the holders of any class of shares of the company.

19.5 The chairman of the Board shall be elected by the shareholders in general meeting.

19.6 Without derogating from the rights of the other Directors, the chairman shall schedule the Board meetings and set their agenda.

19.7 Unless determined otherwise by the Board or by applicable law, the chairman shall appoint the chairpersons and members of committees of the Board.

19.8 Subject to the other provisions in these articles each Director shall be elected for a term of not more than three years. At the end of such term, each such Director may stand for re-election.

20. Alternate Directors

20.1 Any Director, other than an alternate Director, may at any time appoint any other Director, or any person approved by resolution of the Board, to be an alternate Director of the company, and may at any time remove any alternate Director so appointed by him from office and, subject to such approval by the Board, appoint another person in his place. An alternate Director so appointed is not required to hold any share qualification.

20.2 Subject to his giving to the company an address at which notices may be served upon him, an alternate Director is entitled to receive notices of all meetings of the Board and to attend and vote as a Director at any such meeting at which the Director appointing him is not personally present, and generally to perform all the functions of his appointor as a Director in the absence of such appointor.

20.3 An alternate Director will cease to be an alternate Director on the happening of any event which, if he were a Director, would cause him to vacate such office or if his appointor ceases for any reason to be a Director. If, however, any Director retires whether by rotation or otherwise but is reappointed by the meeting at which such retirement took effect, any appointment made by him pursuant to regulation 20.1 which was in force immediately prior to his retirement will continue to operate after his re-appointment as if he had not so retired.

20.4 All appointments and removals of alternate Directors must be effected by notice in writing signed by the Director making or revoking such appointment sent to or left at the Office.

20.5 Except as otherwise provided in these articles, an alternate Director is deemed for all purposes to be an officer of the company and is alone responsible to the company for his own acts and defaults, and he is not deemed to be the agent of or for the Director appointing him. An alternate Director is not entitled to receive any remuneration from the company for his services as such but his remuneration is payable out of the remuneration payable to the Director appointing him, and will consist of such part, if any, of the latter's remuneration as is agreed between them.

21. Powers and duties of Directors

21.1 The business of the company is managed by the Board who may exercise all such powers of the company as are not by the Statutes or by these articles required to be exercised by the company in general meeting, subject nevertheless to the provisions of these articles and of the Statutes, and to such directions, whether or not inconsistent with these articles, as may be prescribed by the company by special resolution. No such direction and no alteration of these articles will invalidate any prior act of the Board which would have been valid if such direction or alteration had not been given or made. The general powers given by this regulation are not limited or restricted by any special authority or power given to the Board by any other regulation.

21.2 The Board may from time to time provide for the management and transaction of the affairs of the company in any specified locality, including abroad, in such manner as they think fit, and the provisions contained in regulations 21.3 to 21.5 are without prejudice to the general powers conferred by this regulation.

21.3 The Board may establish, hire or contract any councils, committees, local boards or agencies for managing any of the affairs of the company, either in the United Kingdom or elsewhere, and may appoint any persons to be members of such local boards, or managers or agents, and may fix their remuneration, and may delegate to any council, committee, local board, manager or agent any of the powers, authorities and discretions vested in the Board, with power to sub-delegate, and may authorise the members of any local board, or any of them, to fill any vacancies in it, and to act notwithstanding vacancies. Any such appointment or delegation may be made upon such terms and subject to such conditions as the Board think fit, and the Board may remove any person so appointed, and may annul or vary any such delegation, but no person dealing in good faith and without notice of any such annulment or variation will be affected by it.

21.4 The Board may from time to time, and at any time, appoint, whether by power of attorney or otherwise, any corporation, firm or person, or any fluctuating body of persons, whether nominated directly or indirectly by the Board, to be the agent of the company for such purposes and with such powers, authorities and discretions, not exceeding those vested in or exercisable by the Board under these articles, and for such period and subject to such conditions as they may think fit. Any such appointment may contain such provisions for the protection and convenience of persons dealing with any such agent as the Board may think fit, and may also authorise any such agent to sub-delegate all or any of the powers, authorities and discretions vested in him.

21.5 The Board may exercise the powers conferred upon the company by section 129, CA 2006 with regard to the keeping of an overseas branch register and the Board may, subject to the provisions of the Statutes, make and vary such regulations as they may think fit respecting the keeping of any such register.

21.6 The Board may establish and maintain, or procure the establishment and maintenance of, any pension, annuity or superannuation funds, whether contributory or otherwise, for the benefit of, and give or procure the giving of donations, gratuities, pensions, allowances and emoluments to, any persons who are or were at any time Directors of or in the employment or service of the company, or of any company which is a subsidiary of the company or is allied to or associated with the company or any such subsidiary or of any of the predecessors in business of the company or any such other company, or who may be or have been Directors or officers of the company, or of any such other company, and to the wives, widows, families and dependants of any such persons.

21.7 Subject to particulars with respect to the proposed payment being disclosed to the members of the company and to the proposal being approved by the company by ordinary resolution, if the Statutes so require, any Director who holds or has held any executive position or agreement for services is entitled to participate in and retain for his own benefit any such donation, gratuity, pension, allowance or emolument.

21.8 The Board may also establish, subsidise and subscribe to any institutions, associations, societies, clubs or funds calculated to be for the benefit of, or to advance the interests and well being of, the company or of any person or any other company mentioned in regulation 21.6, and make payments for or towards the insurance of any such person and subscribe or guarantee money for charitable or benevolent objects, or for any exhibition or for any political, public, general or useful object, and do any of such matters, either alone or in conjunction with any company mentioned in regulation 21.6.

21.9 The Board may exercise the voting power conferred by the shares in any other company held or owned by the company or exercisable by members of the Board as directors of such other company in such manner in all respects as they think fit, including its exercise in favour of any resolution appointing themselves or any of them directors or other officers or employees of such company or voting or providing for the payment of remuneration to such officers or employees.

21.10 All cheques, promissory notes, drafts, bills of exchange and other negotiable or transferable instruments and all receipts for money paid to the company, must be signed, drawn, accepted, endorsed or otherwise executed, as the case may be, in such manner as the Board may from time to time determine by resolution.

22. Borrowing powers

22.1 The Board may exercise all the powers of the company to borrow money and to mortgage or charge its undertaking, property and uncalled capital, or any part if it, and subject to the provisions of the Statutes, to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the company or of any third party.

22.2 The Board may secure or provide for the payment of any money to be borrowed or raised by a mortgage of or charge upon all or any part of the undertaking or property of the company, both present and future, and upon any capital remaining unpaid upon the shares of the company whether called up or not, or by any other security. The Board may confer upon any mortgagees or persons in whom any debenture or security is vested such rights and powers as they think necessary or expedient. They may vest any property of the company in trustees for the purpose of securing any money so borrowed or raised and confer upon the trustees, or any receiver to be appointed by them, or by any debenture holder, such rights and powers as the Board may think necessary or expedient in relation to the undertaking or property of the company or its management or realisation, or the making, receiving, or enforcing of calls upon the members in respect of unpaid capital, and otherwise. The Board may make and issue debentures to trustees for the purpose of further security and the company may remunerate any such trustees.

22.3 The Board may give security for the payment of any money payable by the company in same manner as for the payment of money borrowed or raised.

22.4 The Board must keep a register of charges in accordance with the Statutes and the fee to be paid by any person, other than a creditor or member of the company for each inspection of the register of charges to be kept under CA 2006 is five pence.

23. Delegation of Directors' powers

23.1 The Board may delegate any of their powers, duties, discretion and authorities to committees consisting of such members or member of their body as they think fit. Any committee so formed must, in the exercise of the powers, duties, discretions and authorities so delegated, conform to any regulations that may be imposed on it by the Board.

23.2 The meetings and proceedings of any such committee consisting of two or more members are governed by the provisions of these articles regulating the meetings and proceedings of the Board so far as they are applicable and are not superseded by any regulations made by the Board under regulation 23.1. No resolution of a committee is effective unless a majority of its members present are Directors.

24. Appointment and retirement of Directors

24.1 Subject to Article 24.3, each Director shall retire at the next general meeting after the term of his office ends in accordance with Article 19.2. A Director retiring at a general meeting, if he is not re-appointed, retains office until the meeting appoints someone in his place or, if it does not do so, until the end of that meeting.

24.2 Subject to the provisions of the Statutes and of these articles, the Directors to retire in every year include, so far as necessary to obtain the required number, any Director who wishes to retire and not to offer himself for re-election. Any further Directors so to retire are those who have been longest in office since their last appointment or re-appointment but, as between persons who became or were last re-appointed Directors on the same day, those to retire are determined by the Board at the recommendation of the chairman of the Board. A retiring Director is eligible for re-appointment, subject as set out in these articles.

24.3 In any two year period, a majority of the Directors must stand for re-election or replacement. In the event that this majority has not been met and the number of Directors eligible for retirement by rotation under the provisions of these articles are not met, any further Directors so to retire are those who have been longest in office since their last appointment or re-appointment but, as between persons who became or were last re-appointed Directors on the same day, those to retire are determined by the Board at the recommendation of the chairman of the Board. A retiring Director is eligible for re-appointment, subject as set out in these articles.

24.4 The company at the meeting at which a Director retires in the manner set out in regulation 24.1 may fill the vacated office and, in default, the retiring Director, if willing to act, is deemed to have been re-appointed, unless at such meeting it is expressly resolved not to fill the vacancy, or a resolution for the re-appointment of such Director is put to the meeting and lost.

24.5 No person other than a Director retiring at the meeting, unless recommended by the Directors for appointment, is eligible for appointment to the office of a Director at any general meeting unless, not fewer than seven more than 42 clear days before the day appointed for the meeting, there is given to the company notice in writing by some member duly qualified to be present and vote at the meeting for which such notice is given of his intention to propose such person for appointment stating the required particulars and, also, notice in writing signed by the person to be proposed of his willingness to be appointed.

24.6 At a general meeting, a motion for the appointment of two or more persons as Directors by a single resolution will be void, unless a resolution that it is so made has been first agreed to by the meeting without any vote being given against it and, for the purpose of this regulation, a motion for approving a person's appointment or for nominating a person for appointment is treated as a motion for his appointment.

24.7 The company may from time to time by ordinary resolution increase or reduce the number of Directors and may also determine in what rotation such increased or reduced number is to go out of office. Without prejudice to the provisions of regulation 24.8, the company may by ordinary resolution appoint any person to be a Director, either to fill a casual vacancy or as an additional Director.

24.8 The Board and the company in general meeting each have power at any time, and from time to time, to appoint any person to be a Director, either to fill a casual vacancy or as an additional Director, but so that the total number of Directors does not at any time exceed the maximum number, if any, fixed by or in accordance with these articles. Subject to the provisions of the Statutes and of these articles, any Director so appointed by the Directors holds office only until the conclusion of the next following annual general meeting and is eligible for reappointment at that meeting. Any Director who retires under this regulation is not taken into account in determining the Directors who are to retire by rotation at such meeting.

24.9 Any contract of employment entered into by a Director with the company may not include a term that it is to continue or may be continued, otherwise than at the instance of the company, for a period exceeding two years during which the employment either cannot be terminated by the company by notice or can be so terminated only in specified circumstances, unless such term is first approved by ordinary resolution of the company.

24.10 There is no restriction as to the age of Directors except as required by the Statutes.

24.11 On such persons who are nominated in accordance with the procedures set forth in this regulation shall be eligible to serve as directors.

25. Disqualification and removal of Directors

25.1 The office of a Director must be vacated in any of the following events:

25.1.1 if, not being a Director who has agreed to serve as a Director for a fixed term, he resigns his office by notice in writing signed by him and authorised in such manner as the other Directors may require, sent to or left at the Office;

25.1.2 if he becomes bankrupt or makes any arrangement or composition with his creditors generally or applies to the court for an interim order under section 253, Insolvency Act 1986 in connection with a voluntary arrangement under that Act;

25.1.3 an order is made by any court having jurisdiction on the ground, however formulated, of mental disorder for his detention or for the appointment of a guardian or receiver or other person, by whatever name called, to exercise powers with respect to his property or affairs;

25.1.4 if he is absent from meetings of the Directors for six successive months without leave, and his alternate Director, if any, has not during such period attended in his place, and the Directors resolve that his office be vacated;

25.1.5 if he ceases to be a Director by virtue of any provision of the Statutes or pursuant to these articles; or

25.1.6 if he becomes prohibited by law or by the Listing Rules from being a Director (after taking into account any grace period provisions or exceptions that may apply).

25.2 The company may in accordance with, and subject to the provisions of, the Statutes, by ordinary resolution of which special notice has been given, remove a Director before the expiry of his period of office and may appoint another person in his place. Such removal is without prejudice to any claim such Director may have for breach of any contract of service between him and the company. The person so appointed is subject to retirement at the same time as if he had become a Director on the day on which the Director in whose place he is appointed was last appointed or reappointed a Director.

26. Executive and other directors

26.1 Subject to the provisions of the Statutes, the Board may from time to time and at any time appoint one or more of their body to hold any executive office in relation to the management of the business of the company on such terms, for such period and with or without such title(s) as they may decide. The Board may, from time to time, subject to the provisions of any service contract between the appointee(s) and the company, remove or dismiss him or them from such office and appoint another or others in his or their place or places.

26.2 A Director who holds any such executive office is, while he continues to hold that office, subject to retirement by rotation in accordance with the provisions of regulation 24, and he is taken into account in determining the retirement by rotation of Directors. He is also, subject to the provisions of regulation 25.1 and of any service contract between him and the company, subject to the same provisions as to removal and as to vacation of office as the other Directors of the company. If he ceases to hold the office of Director for any cause, his appointment as the holder of an executive office will also terminate, unless otherwise determined by the Board.

26.3 The remuneration of any Director holding executive office may consist of salary, commission, profit participation, share options, pension or insurance benefit or any combination of them, or otherwise as determined by the Board.

26.4 The Board may entrust to and confer upon any Director appointed to any such executive office any of the powers exercisable by them, other than the power to make calls, upon such terms and conditions and with such restrictions as the Board think fit, and either collaterally with or to the exclusion of their own powers, and may from time to time revoke, withdraw, alter or vary all or any of such powers.

26.5 Subject to the provisions of the Statutes, the Board may from time to time, and at any time, pursuant to this regulation appoint any person to any post with such descriptive title including that of Director, whether as executive, group, divisional, departmental, deputy, assistant, local, advisory director or otherwise, as they may determine. They may define, limit, vary and restrict the powers, authorities and discretions of any person so appointed and may fix and determine his remuneration and duties, and subject to any contract between him and the company, may remove from such post any person so appointed. A person so appointed is not a Director for any of the purposes of these articles or of the Statutes, and accordingly is not a member of the Board or of any committee of the Board, nor is he entitled to be present at any meeting of the Board or of any such committee, except at the request of the Board or of such committee. If present at such request, he is not entitled to vote at such meeting.

27. Remuneration of Directors

27.1 The Directors are entitled to fees at such rate or rates as may from time to time be determined by the Board, but the aggregate fees of the Directors (as such) will not exceed £150,000 (one hundred and fifty thousand pounds) per annum, or such additional sum as may from time to time be determined by the company by ordinary resolution. In the case of an executive Director, such fees are payable to him in addition to his remuneration as an executive Director.

27.2 The company may, by ordinary resolution, also vote extra fees to the Directors which will, unless otherwise determined by the resolution by which it is voted, be divided among the Directors as they may agree, or failing agreement, equally. The Directors' fees are deemed to accrue from day to day.

27.3 Any Director who serves on any committee, or who devotes special attention to the business of the company, or who otherwise performs services which in the opinion of the Board are outside the scope of the ordinary duties of a Director, may be paid such extra remuneration by way of salary, options, participation in profits or otherwise as the Board may determine.

28. Directors' expenses

The Directors are also entitled to be paid all travelling, hotel, food and other expenses properly incurred by them in connection with the business of the company or in attending and returning from meetings of the Board or of committees of the Board or general meetings.

29. Directors' interests

29.1 A Director, including an alternate Director, may hold any other office or place of profit under the company, other than the office of auditor, in conjunction with his office of Director and may act in a professional capacity to the company, on such terms as to tenure of office, remuneration and otherwise as the Board may determine.

29.2 Subject to the Statutes and to the provisions of these articles, no Director or intending Director, including an alternate Director, is disqualified by his office from contracting with the company either with regard to his tenure of any other office or place of profit, or as seller, purchaser or otherwise. No such contract, or any contract or arrangement entered into by or on behalf of the company in which any Director is in any way, whether directly or indirectly, interested, is liable to be avoided, nor is any Director so contracting or being so interested obliged to account to the company for any profit realised by any such contract or arrangement by reason of the Director holding that office or of his fiduciary relationship with the company.

29.3 Any Director, including an alternate Director, may continue to be or become a director or other officer or member of or otherwise interested in any other company promoted by the company or in which the company may be interested, as a member or otherwise, or which is a holding company of the company or a subsidiary of any such holding company. No such Director is accountable for any remuneration or other benefits received by him as a director or other officer or member of, or from his interest in, any such other company. The Board may exercise the voting power conferred by the shares in any other company held or owned by the company, or exercisable by the directors of such other company, in such manner in all respects as they think fit, subject to the restrictions contained in regulation 29.9.

29.4 A Director, including an alternate Director, who is in any way, whether directly or indirectly, interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with the company must declare the nature of his interest at a meeting of the Board. In the case of a proposed contract, transaction or arrangement, the declaration must be made at the meeting of the Board at which the question of entering into the contract, transaction or arrangement is first taken into consideration or, if the Director was not at the date of that meeting interested in the proposed contract, transaction or arrangement, at the next meeting of the Board held after he became so interested. In a case where the Board becomes interested in a contract, transaction or arrangement after it is made, the declaration must be made at the first meeting of the Board held after the Director becomes so interested. In a case where the Director is interested in a contract, transaction or arrangement which has been made before he was appointed a Director, the declaration must be made at the first meeting of the Board held after he is so appointed.

29.5 For the purposes of regulation 29.4, a general notice given to the Board by any Director to the effect that he is a member of any specified company or firm and is to be regarded as interested in any contract which may, after the date of the notice, be made with such company or firm is deemed a sufficient declaration of interest in relation to any contract so made if such Director gives the notice at a meeting of the Board or takes reasonable steps to secure that it is brought up and read at the next meeting of the Board after it is given.

29.6 A Director may continue or become a director or other officer, employee or member of any company promoted by the company or in which it may be interested as a seller, shareholder, or otherwise, and no such Director is accountable for any remuneration or other benefits derived as director or other officer, employee or member of such company.

29.7 Except as provided in these articles, a Director may not vote at a meeting of the Board or of a committee of the Board on any resolution concerning a matter:

29.7.1 in which he has (either alone or together with any person connected with him, as provided in section 252, CA 2006) a material interest, other than an interest in shares or debentures or other securities of or in the company; and

29.7.2 (subject to regulation 30) which conflicts or may conflict with the interests of the company.

29.8 A Director is not counted in the quorum at a meeting in relation to any resolution on which he is debarred from voting.

29.9 Notwithstanding the provisions of regulations 29.7 and 29.8 and 30, a Director is entitled to vote and be counted in the quorum in respect of any resolution concerning any of the following matters:

29.9.1 the giving of any security, guarantee or indemnity to him in respect of money lent or obligations incurred by him or by any other person at the request of or for the benefit of the company or any of its subsidiaries;

29.9.2 the giving of any security, guarantee or indemnity to a third party in respect of a debt or obligation of the company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;

29.9.3 any proposal concerning an offer of shares or debentures or other securities of or by the company or any of its subsidiaries for subscription or purchase in which offer he is or is to be interested as a participant as the holder of such shares, debentures or other securities or in its underwriting or sub-underwriting;

29.9.4 any contract, arrangement, transaction or other proposal concerning any other company in which he holds an interest not representing one per cent. or more of any class of the equity share capital (calculated exclusive of any shares of that class held as treasury shares) of such company, or of any third company through which his interest is derived, or of the voting rights available to members of the relevant company, any such interest being deemed for the purpose of this regulation to be a material interest in all circumstances;

29.9.5 any contract, arrangement, transaction or other proposal concerning the adoption, modification or operation of a superannuation fund or retirement, death or disability benefits scheme under which he may benefit and which has been approved by or is subject to and conditional upon approval by HM Revenue & Customs;

29.9.6 any contract, arrangement, transaction or proposal concerning the adoption, modification or operation of any scheme for enabling employees including full time executive Directors of the company and/or any subsidiary to acquire shares of the company or any arrangement for the benefit of employees of the company or any of its subsidiaries, which does not award him any privilege or benefit not awarded to the employees to whom such scheme relates; or

29.9.7 any contract, arrangement, transaction or proposal concerning insurance which the company proposes to maintain or purchase for the benefit of Directors or for the benefit of persons including Directors.

29.10 A Director may not vote or be counted in the quorum on any resolution concerning his own appointment as the holder of any office or place of profit with the company or any company in which the company is interested, including fixing or varying the terms of his appointment or its termination.

29.11 Where proposals are under consideration concerning the appointment, including fixing or varying the terms of appointment, of two or more Directors to offices or employments with the company or any company in which the company is interested, such proposals may be divided and considered in relation to each Director separately. In such cases, each of the Directors concerned, if not debarred from voting under regulation 29.9.4, is entitled to vote and be counted in the quorum in respect of each resolution except that concerning his own appointment.

29.12 If any question arises at any meeting as to the materiality of a Director's interest or as to the entitlement of any Director to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question must be referred to the chairman of the meeting and his ruling in relation to any other Director will be final and conclusive, except in a case where the nature or extent of the interests of the Director concerned have not been fairly disclosed. If the question concerns the chairman, it must be referred to such other Director present at the meeting, other than the chairman, as the Directors present appoint.

29.13 Subject to the Statutes, the company may by ordinary resolution suspend or relax the provisions of regulations 29.4 to 29.12 to any extent or ratify any transaction not duly authorised by reason of a contravention of these articles.

30. Conflicts of interest requiring Board authorisation

30.1 The Board may, if the quorum and voting requirements set out in this regulation 30 are satisfied, authorise any matter that would otherwise involve a Director (**Relevant Director**) breaching his duty under chapters 2 and 3 of part 10, CA 2006 to avoid conflicts of interest.

30.2 Any Director (including the Relevant Director) may propose that the Relevant Director be authorised in relation to any matter which is the subject of such a conflict. The proposal and any authority given by the Board will be determined in the same way as any other matter proposed to and resolved by the Board under these articles, except that the Relevant Director and any other Director with a similar interest:

30.2.1 will not count towards the quorum at the meeting at which the conflict is considered;

30.2.2 may, if the Board so decides, be excluded from any Board meeting while the conflict is under consideration; and

30.2.3 may not vote on any resolution authorising the conflict, but except that, if he or they in fact vote, the resolution will be valid if it would have been passed even if the vote or votes had not been counted.

30.3 Where the Board gives authority in relation to such a conflict:

30.3.1 the Board may (whether at the time of giving the authority or at any time or times subsequently) impose such terms upon the Relevant Director and any other Director with a similar interest as it deems appropriate, including, without limitation, the exclusion of the Relevant Director and any other Director with a similar interest from the receipt of information, or participation in discussion (whether at meetings of the Board or otherwise) relating to the conflict;

30.3.2 the Relevant Director and any other Director with a similar interest will be obliged to comply with any terms imposed by the Board from time to time in relation to the conflict;

30.3.3 the authority may also provide that where the Relevant Director, and any other Director with a similar interest, obtains information that is confidential to a third party, the Relevant Director or such other Director, as the case may be, will not be obliged to disclose that information to the company, or to use the information in relation to the company's affairs, where to do so would amount to a breach of that confidence;

30.3.4 the terms of the authority must be recorded in writing; and

30.3.5 the authority may be withdrawn by the Board at any time.

31. Proceedings of Directors

31.1 The Board may meet together for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting are determined by a majority of votes. In case of an equality of votes, the chairman shall have a casting vote. A Director who is also an alternate Director is entitled, in the absence of the Director whom he is representing, to a separate vote on behalf of such Director in addition to his own vote. A Director may, and the Secretary on the requisition of a Director must, at any time call a meeting of the Board.

31.2 Notice of meetings of the Board is deemed to be duly given to a Director if it is given to him personally or by word of mouth or sent in writing or other means to him at his last known address or any other address (including an electronic address) given by him from time to time to the company for this purpose. A Director may request the Board that notices of Board meetings will be sent in writing to him at an electronic address given by him to the company.

31.3 The quorum necessary for the transaction of the business of the Board may be fixed by the Board, and unless so fixed at any other number, is a majority of the Board of Directors, to include the Chairman of the Board. If a Board meeting is attended by a Director who is acting as an alternate for one or more other Directors, the Director or Directors for whom he is the alternate will be counted in the quorum despite their absence, and if on this basis there is a quorum the meeting may be held despite the fact that only one Director is physically present. A meeting of Directors for the time being at which a quorum is present is competent to exercise all powers and discretions for the time being exercisable by the Board.

31.4 All or any of the Directors, including alternates, or members of any committee of the Board may participate in a meeting of the Board or that committee by means of a conference telephone or any communication equipment which allows all persons participating in the meeting to hear each other. A person so participating is deemed to be present in person at the meeting and may vote or be counted in a quorum. Accordingly, a meeting of the Board or a committee of the Board may be held where each of those present or deemed to be present is in communication with the others only by telephone or other communication equipment. A meeting where those present or deemed to be present are in different locations is deemed to take place where the largest group of those participating is assembled, or, if there is no such group, where the chairman of the meeting then is.

31.5 The continuing Directors may act notwithstanding any vacancy in their body. If the number of the Directors is less than the prescribed minimum, the remaining Director or Directors must immediately appoint an additional Director or additional Directors to make up such minimum or convene a general meeting of the company for the purpose of making such appointment. If there is no Director or Directors able or willing to act, any two members may summon a general meeting for the purpose of appointing Directors. Any additional Director so appointed holds office, subject to the provisions of the Statutes and these articles, only until the end of the annual general meeting of the company next following such appointment, unless he is re-elected during such meeting. He is eligible for re-election at such meeting and does not retire by rotation at such meeting nor is taken into account in determining the rotation or retirement of Directors at such meeting.

31.6 The Board may from time to time elect from their number, and remove, one or more deputy chairmen or vice chairmen and determine the period for which any such person is to hold office. The deputy chairman or vice chairman (to be chosen, if in each case there are more than one, by agreement amongst them or, failing agreement, by lot) or in the absence of any of them, some other Director nominated by a majority of the other Directors in writing, presides at all meetings of the Board. If no such chairman, deputy chairman or vice chairman is elected, or if at any meeting the chairman or the deputy chairman or the vice chairman or such other Director is not present within five minutes after the time appointed for holding it, or if none of them is willing to act as chairman, the Directors present may choose one of their number to be chairman of the meeting.

31.7 A resolution in writing, agreed to by all the Directors for the time being entitled to receive notice of a meeting of the Board (if that number is sufficient to constitute a quorum) or of a committee of the Board, is as effective as a resolution passed at a Board meeting or of a committee of the Board, duly convened and held. For this purpose a Director signifies his consent to a proposed resolution in writing when the company receives from him or his alternate a document or an electronic communication at such address (including an electronic address) as may be specified by the company indicating his agreement to the resolution, authenticated in the manner required by section 1146, CA 2006.

31.8 A meeting of the Directors for the time being at which a quorum is present is competent to exercise all powers and discretions for the time being exercisable by the Board.

31.9 All acts done bona fide by any meeting of Directors, or of a committee of the Board, or by any person acting as Director, are as valid as if every such person had been duly appointed, was qualified, had continued to be a Director and had been entitled to vote, notwithstanding that it is afterwards discovered that there was some defect in the appointment of any such director or person acting as a Director, or that they or any of them were disqualified, or had vacated office, or were not entitled to vote.

32. Secretary

32.1 Subject to the Statutes, the Secretary of the company is appointed by the Board on such terms and for such periods as they may think fit, and the Board may so appoint one or more assistant or deputy Secretary. Any Secretary or assistant or deputy Secretary so appointed may at any time be removed from office by the Board, without prejudice to any claim for damages for breach of any contract of service between him and the company.

32.2 Anything by CA 2006 required or authorised to be done by the Secretary may, if the office is vacant or there is for any other reason no Secretary capable of acting, be done by any assistant or deputy Secretary or, if there is no assistant or deputy Secretary capable of acting, by any officer of the company authorised generally or specifically in that behalf by the Board. Any provision of the Statutes or of these articles requiring or authorising a thing to be done by a Director and Secretary is not satisfied by its being done by the same person acting both as Director and as, or in the place of, the Secretary.

33. Minutes

33.1 The Board must ensure that minutes are made of:

33.1.1 all appointments of officers and committees made by the Board;

33.1.2 the names of the Directors present at each meeting of Board and of any committee of the Board and all business transacted at such meetings; and

33.1.3 all orders, resolutions and proceedings at all meetings of the company, of the holders of any class of shares in the company and of the Board and of committees of the Board.

33.2 Any such minute, if purporting to be signed by the chairman of the meeting at which the proceedings were held, or by the chairman of the next succeeding meeting, is prima facie evidence of the matters stated in such minutes without any further proof.

34. Seal and authentication of documents

34.1 The Board may provide a common seal for the company and have power from time to time to destroy it and to substitute a new seal for it.

34.2 A document expressed to be executed by the company signed as provided by section 44(2), CA 2006 has effect as if executed under seal.

34.3 The Board may exercise the powers conferred on the company by section 50, CA 2006 with regard to having an official seal solely for sealing documents creating or evidencing securities of the company. Any such documents to which such official seal is affixed need not be signed by any person.

34.4 The Board must provide for the safe custody of the seal and the seal may never be used except by the authority of a resolution of the Board or of a committee of the Board authorised for that purpose by the Board. The Board may from time to time make such regulations as it thinks fit, subject to the provisions of these articles in relation to share and debenture certificates, determining the persons and the number of such persons who may sign every instrument to which the seal is affixed and, until otherwise so determined, every such instrument must be signed by one Director and must be countersigned by a second Director or by the Secretary.

34.5 The company may have official seals under the provisions of section 49, CA 2006 for use abroad. Wherever reference is made in these articles to the seal, the reference, when and so far as may be applicable, is deemed to include any such official seal.

34.6 Any Director or the Secretary or any person appointed by the Board for the purpose has power to authenticate any documents affecting the constitution of the company and any resolutions passed by the company or the Board or any committee of the Board, and any books, records, documents and accounts relating to the business of the company, and to certify copies of them or extracts from them as true copies or extracts. A document purporting to be a copy of a resolution, or a copy of or an extract from the minutes of a meeting of the company or of the Board or any committee of the Board, which is certified as stated, is conclusive evidence in favour of all persons dealing with the company upon the faith of any such copy that such resolution has been duly passed or, as the case may be, that such copy or extract is a true and accurate record of proceedings at a duly constituted meeting.

35. Dividends

35.1 The profits of the company available for distribution and resolved to be distributed are applied in the payment of dividends to the members in accordance with their respective rights and priorities. The company in general meeting may declare dividends accordingly.

35.2 No dividend or interim dividend is payable otherwise than in accordance with the provisions of the Statutes and no dividend may exceed the amount recommended by the Board.

35.3 Subject to the rights of persons, if any, entitled to shares with preferential or other special rights as to dividends, all dividends must be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid. No amount paid up on a share in advance of the date on which a call is payable may be treated as paid up for this purposes. All dividends will be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid, except that if any share is issued on terms providing that it carries any particular rights as to dividend, such share will rank for dividend accordingly.

35.4 Subject to the provisions of the Statutes and of these articles, the Board may, if they think fit, from time to time pay to the members such interim dividends as appear to the Board to be justified by the distributable profits of the company. If at any time the share capital of the company is divided into different classes, the Board may pay such interim dividends in respect of those shares in the capital of the company which confer on their holders deferred or non preferred rights, as well as in respect of those shares which confer on their holders preferential rights with regard to dividend. No dividend, whether interim, final or otherwise, may be paid on shares carrying deferred or non preferred rights if, at the time of payment, any preferential dividend is in arrear. The Board may also pay half yearly, or at other suitable intervals to be settled by them, any dividend which may be payable at a fixed rate if they are of the opinion that the distributable profits justify the payment and if and to the extent that such payment is permitted by the Statutes. So long as the Board act in good faith, they will not incur any responsibility to the holders of shares conferring a preference for any damage that they may suffer by reason of the payment of an interim dividend on any shares having deferred or non preferred rights.

35.5 Subject to the provisions of the Statutes or as otherwise required by law, where any asset, business or property is bought by the company as from a past date, whether such date is before or after the incorporation of the company, the profits or losses attributable to it as from such date may at the discretion of the Board in whole or in part be carried to revenue account and treated for all purposes as profits or losses of the company. Except as stated, if any shares or securities are purchased cum dividend or interest, such dividend or interest may at the discretion of the Board be treated as revenue and it will not be obligatory to capitalise it or any part of it.

35.6 The Board may deduct from any dividend or other money payable to any member on or in respect of a share all sums of money, if any, presently payable by him to the company on account of calls or otherwise in relation to the shares of the company. The company may cease to send any cheque or warrant through the post for any dividend payable on any shares in the company which is normally paid in that manner on those shares if, in respect of at least two consecutive dividends payable on those shares, the cheques or warrants have been returned undelivered or remain uncashed or, if following one such occasion, reasonable enquiries have failed to establish any new address of the registered holder. Subject to the provisions of these articles, the company must recommence sending cheques or warrants in respect of dividends payable on those shares if the holder or person entitled by transmission claims the arrears of dividend and does not instruct the company to pay future dividends in some other way.

35.7 The Board may retain the dividends payable upon shares in respect of which any person is, under the provisions as to the transmission of shares contained in these articles, entitled to become a member, or which any person is under those provisions entitled to transfer, until such person becomes a member in respect of such shares or transfers them.

35.8 All dividends, interest or other sums payable and unclaimed for one year, after having been declared, may be invested or otherwise made use of by the Board for the benefit of the company until claimed and the company is not constituted a trustee in respect of them. No dividend will bear interest as against the company.

35.9 Any dividend which has remained unclaimed for a period of 12 years from the date on which it becomes due for payment will, if the Board so resolve, be forfeited and cease to remain owing by the company and will from then on belong to the company absolutely.

35.10 Any dividend or other money payable on or in respect of a share may be paid by cheque or warrant sent through the post to the registered address of the member or person entitled to it and, in the case of joint holders, to any one of such joint holders or, to such person and such address as the holder or joint holders may in writing direct. Every such cheque or warrant will be made payable to the order of the person to whom it is sent or to such other person as the holder or joint holders may in writing direct and payment of the cheque or warrant is a good discharge to the company. Every such cheque or warrant will be sent at the risk of the person entitled to the money.

35.11 If several persons are registered as joint holders of any share any one of them may give effectual receipts for any dividend or other money payable on or in respect of the share.

35.12 The Board may, if authorised by an ordinary resolution of the company, offer any holders of Ordinary Shares the right to elect to receive Ordinary Shares, credited as fully paid, instead of cash in respect of the whole, or some part, to be determined by the Board, of any dividend specified by the ordinary resolution. The following provisions will apply:

35.12.1 an ordinary resolution may specify a particular dividend or may specify all or any dividends declared within a specified period but such period may not end later than the beginning of the annual general meeting next following the date of the meeting at which the ordinary resolution is passed;

35.12.2 the entitlement of each holder of Ordinary Shares to new Ordinary Shares is such that the relevant value of the entitlement is as nearly as possible equal to, but not greater than, the cash amount, disregarding any tax credit of the dividend that such holder elects to forgo. For this purpose, **relevant value** is calculated by reference to the average of the middle market quotations for the company's Ordinary Shares on the relevant stock exchange, on the day on which the Ordinary Shares are first quoted "ex" the relevant dividend and the four subsequent dealing days or in such other manner as may be determined by or in accordance with the ordinary resolution. A certificate or report by the auditors as to the amount of the relevant value in respect of any dividend is conclusive evidence of that amount;

35.12.3 on or as soon as practicable after announcing that they are to declare or recommend any dividend, the Board, if they intend to offer an election in respect of that dividend, must also announce that intention, and, after determining the basis of allotment, if the Board decide to proceed with the offer, must notify the holders of Ordinary Shares in writing of the right of election and specify the procedure to be followed and the place at which, and the latest time by which, elections must be lodged in order to be effective;

35.12.4 the Board may not proceed with any election unless the company has sufficient unissued shares authorised for issue and sufficient reserves or funds that may be capitalised to give effect to it after the basis of allotment is determined;

35.12.5 the Board may exclude from any offer any holders of Ordinary Shares where the Board believes that the making of the offer to them would or might involve the contravention of the laws of any territory or that for any other reason the offer should not be made to them;

35.12.6 the dividends, or that part of the dividend in respect of which a right of election has been offered, will not be payable on Ordinary Shares other which an election has been made (**elected ordinary shares**) and, instead, additional Ordinary Shares will be allotted to the holders of the elected ordinary shares on the basis of the allotment calculated as stated. For such purpose, the Board will capitalise, out of any amount for the time being standing to the credit of any reserve or fund, including the profit and loss account, whether or not it is available for distribution as the Board may determine, a sum equal to the aggregate nominal amount of the additional Ordinary Shares to be allotted on that basis and apply it in paying up in full the appropriate number of unissued Ordinary Shares for allotment and distribution to the holders of the elected ordinary shares on that basis; and

35.12.7 the additional Ordinary Shares when allotted will rank equally in all respects with the fully paid shares then in issue except that they will not be entitled to participate in the relevant dividend.

35.13 A general meeting declaring a dividend may, upon the recommendation of the Board, direct payment of such dividend wholly or in part by the distribution of specific assets, and in particular of paid up shares or debentures of the company or any other company, and the Board must give effect to such resolution. Where any difficulty arises in regard to the distribution, they may settle it as they think expedient and, in particular but without limitation, may issue fractional certificates and may fix the value for distribution of such specific assets or any part of them, and may determine that cash payments will be made to any members upon the basis of the value so fixed, in order to adjust the rights of members. They may vest any specific assets in trustees upon trust for the persons entitled to the dividend as may seem expedient to the Board, and generally may make such arrangements for the allotment, acceptance and sale of such specific assets or fractional certificates, or any part of them, and otherwise as they think fit.

36. Reserves

36.1 Subject to the provisions of the Statutes, the Board may before recommending any dividend, whether preferential or otherwise, carry to reserve out of the profits of the company, including any premiums received upon the issue of debentures or other securities of the company, such sums as they think proper as a reserve or reserves.

36.2 All sums standing to reserve may be applied from time to time at the discretion of the Board for meeting depreciation or contingencies or for special dividends or bonuses or for equalising dividends or for repairing, improving or maintaining any of the property of the company or for such other purposes as the Board may decide are conducive to the objects of the company or any of them. Pending their application such sums may either be employed in the business of the company or be invested in such investments as the Board think fit.

36.3 The Board may divide the reserve into such special funds as they think fit, and may consolidate into one fund any special funds or any parts of any special funds into which the reserve has been divided, as they think fit. Any sum which the Board may carry to reserve out of the unrealised profits of the company will not be mixed with any reserve to which profits available for distribution have been carried. The Board may also without placing them to reserve carry forward any profits which they may think it not prudent to divide.

37. Capitalisation of profits

37.1 Subject as set out in regulations 37.2 and 37.3 the Board may with the authority of an ordinary resolution of the company:

37.1.1 resolve to capitalise any undivided profits of the company, whether or not they are available for distribution and including profits standing to any reserve, or, any sum standing to the credit of the company's share premium account or capital redemption reserve funds;

37.1.2 appropriate the profits or sum resolved to be capitalised to the members in proportion to the nominal amount of Ordinary Shares, whether or not fully paid, held by them respectively, and apply such profits or sum on their behalf, either in or towards paying up the amounts, if any, for the time being unpaid on any shares held by such members respectively, or in paying up in full unissued shares or debentures of the company of a nominal amount equal to such profits or sum, and allot and distribute such shares or debentures credited as fully paid up, to and amongst such members, or as they may direct, in due proportion, or partly in one way and partly in the other;

37.1.3 resolve that any shares allotted under this regulation to any member in respect of a holding by him of any partly paid Ordinary Shares will, so long as such Ordinary Shares remain partly paid, rank for dividends only to the extent that such partly paid Ordinary Shares rank for dividend;

37.1.4 make such provisions by the issue of fractional certificates or by payment in cash or otherwise as the Board think fit for the case of shares or debentures becoming distributable under this regulation in fractions;

37.1.5 authorise any person to enter on behalf of all the members concerned into an agreement with the company providing for the allotment to them respectively, credited as fully paid up, of any shares or debentures to which they may be entitled upon such capitalisation and any agreement made under such authority being effective and binding on all such members; and

37.1.6 generally do all acts and things required to give effect to such resolution.

37.2 The share premium account and the capital redemption reserve fund and any such profits which are not available for distribution may, for the purposes of regulation 37.1, only be applied in the paying up of unissued shares to be allotted to members credited as fully paid.

37.3 In the case where any sum is applied in paying amounts for the time being unpaid on any shares of the company or in paying up in full debentures of the company, the amount of the net assets of the company at that time must be not less than the aggregate of the called up share capital of the company and its undistributable reserves and must not be reduced below that aggregate by the payment of those amounts as shown in the latest audited accounts of the company, or such other accounts as may be relevant.

38. Accounts

38.1 The Board must ensure that proper accounting records are kept in accordance with the Statutes.

38.2 The accounting records must be kept at the office, or, subject to the provisions of the Statutes, at such other place as the Board think fit, and must always be open to inspection by the officers of the company. No member, other than a Director, has any right of inspecting any account or book or document of the company, except as conferred by the Statutes or authorised by the Board or by the company in general meetings.

38.3 The Board must from time to time, in accordance with the provisions of the Statutes, ensure that there are prepared and laid before the company in general meeting such profit and loss accounts balance sheets, group accounts, if any, and reports as are specified in the Statutes.

38.4 Subject to the Statutes, a copy of every Directors' report and Auditors' report accompanied by the company's annual accounts and every other document required by law to be attached to them or a summary financial statement derived from the company's annual accounts, prepared in accordance with the Statutes, must, not less than 21 clear days before the date of the meeting at which copies of those documents are to be laid, be sent to every member (whether or not entitled to receive notices of general meetings) and to every holder of debentures of the company (whether nor not entitled to receive notices of general meetings) and to the Auditors and to every other person who is entitled to receive notices of general meetings from the company. This regulation 38.4 does not require such documents to be sent to any member or holder of debentures of whose address the company is not aware nor to more than one of the joint holders of any shares or debentures.

38.5 The accidental omission to send any document required to be sent to any person under regulation 38.4 or the non receipt of any document by any person entitled to receive it does not invalidate any such document or the proceedings at the general meeting.

38.6 Whenever any of the company's shares or debentures have been admitted to **listing on a Regulated Market**, the required number of such documents must, at the same time, be forwarded to the appropriate officer of the Regulated Market as required by the Listing Rules.

39. Record dates

Notwithstanding any other provision of these articles, the company or the Board may fix any date as the record date for any dividend, distribution, allotment or issue and such record date may be on or at any time before any date on which such dividend, distribution, allotment or issue is paid or made and on or at any time before or after any date on which such dividend, distribution, allotment or issue is declared.

40. Audit

40.1 Auditors must be appointed and their duties, powers, rights and remuneration regulated in accordance with the provisions of CA 2006.

40.2 Once at least in every year the accounts of the company must be examined and the correctness of the balance sheet, profit and loss account and group accounts, if any, ascertained by the Auditors.

41. Notices

41.1 A notice or other document or information to be sent to or by any person under these articles (other than a notice calling a meeting of the Board or of a committee of the Board) must be in writing or sent using electronic communication to an electronic address notified for that purpose to the person sending the notice or other document or information.

41.2 A notice or other document or information may be delivered or sent to a member or another person by the company personally or by letter. Any letter must be sent by first class post and addressed to such member or other person at the postal address in the Register (or at another address notified for the purpose) or left at that address in any envelope addressed to that member or other person. Electronic communications may be used for sending a notice or other document or information to a member or other person where that member or other person has agreed, or is deemed to have agreed, to the use of electronic communication and has specified an electronic address for this purpose. A notice or other document or information may be sent to a member or other person by the company by placing it on a website and sending the member or other person concerned notification of the availability of the notice, document or information on the website, where the member or other person has agreed, or is deemed, as provided by the Statutes, to have agreed to having such notices, documents or information sent to him in that manner.

41.3 Without prejudice to regulation 41.2, the company may send or supply a notice or any other document or information that is required or authorised to be sent or supplied to a member or any other person by the company by any provision of the Statutes, or pursuant to these articles or to any other rule or regulation to which the company may be subject, in electronic form or by making it available on a website, and the provisions of schedule 5 CA 2006 will apply whether or not any such notice, document or information is required or authorised by the Statutes to be sent or supplied.

41.4 Any notice or other document or information to be sent to a member or other person may be sent by reference to the Register or the company's other records as they stand at any time within the period of 15 days before the notice or other document or information is sent and no change in the Register or the company's other records after that time will invalidate the sending of the notice or other document or information.

41.5 In the case of joint holders of a share, a notice or other document or information will be sent to whichever of them is named first in the Register and a notice or other document or information sent in this way is sufficiently sent to all the joint holders.

41.6 If, on three consecutive occasions, a notice or other document or information sent to a member or other person is returned undelivered, such member or other person will not thereafter be entitled to receive notices or other documents or information from the company until he has communicated with the company and supplied in writing to it a new address for the service of notices or other documents or information or has informed the company, in such manner as may be specified by the company, of an electronic address for the service of notices or other documents or information by electronic communication. For these purposes, a notice or other document or information sent by post will be treated as returned undelivered if it is sent back to the company or its agents and a notice or other document or information sent by electronic communication will be treated as returned undelivered if the company or its agents receive notification that it was not delivered to the address to which it was sent.

41.7 Any notice or other document or information sent addressed to a member or another person at his registered address (or another address or an electronic address notified for the purpose) is deemed to be served, if personally delivered, at the time of delivery or, if sent by first class post, on the fifth Business Day after the letter is posted or, in the case of a notice or other document or information contained in an electronic communication, on the same day it is sent. A notice or other document or information left at such an address is deemed to be received on the day it is left. In proving service it is sufficient to establish that the letter was properly addressed and, if sent by post, prepaid or stamped and posted. Proof that a notice or other document or information contained in an electronic communication was sent in accordance with guidance issued by the Institute of Chartered Secretaries and Administrators will be conclusive evidence that the notice or other document or information was received.

41.8 Any member present, either personally or by proxy, at any general meeting of the company or of the holders of any class of shares in the company will for all purposes be deemed to have received due notice of such meeting and, where requisite, of the purposes for which such meeting was called.

41.9 A person who becomes entitled by transmission, transfer or otherwise to a share is bound by a notice in respect of that share (other than a notice served by the company under a Section 793 Notice ("Notice by company requiring information about interests in its shares")) which, before his name is entered in the Register, has been properly sent to a person from whom he derives his title.

41.10 Where a person is entitled by transmission to a share, the company may send a notice or other document or information to that person as if he were the holder of a share by addressing it to him or to the representative of the deceased or trustee of the bankrupt member at an address or electronic address supplied for that purpose by the person claiming or be entitled by transmission. Until an address has been supplied, a notice or other document or information may be sent in any manner in which it might have been sent if the death or bankruptcy or other event had not occurred. The giving of notice in accordance with this regulation 41.10 is sufficient notice to all other persons interested in the share.

41.11 If, by reason of the suspension or curtailment of postal or electronic communication services in the country where the head office of the company is located, the company is unable effectively to convene a general meeting by notice sent through the post or by electronic communication, or to send any other document or information by post or by electronic communication.

42. Untraced shareholders

42.1 The company is entitled to sell at the best price reasonably obtainable any share of a member or any share to which a person is entitled by transmission if:

42.1.1 during a period of 12 years the company has paid at least three dividends, whether interim or final in respect of the share in question and all cheques and warrants in respect of any such dividend sent in the manner authorised by these articles by the company have been returned undelivered or remained uncashed and no communication has been received by the company from the member or the person entitled by transmission;

42.1.2 the company has, at the expiry of the period of 12 years, by advertisement in a national daily newspaper in the United Kingdom , as well as in a newspaper circulating in the area which includes the address held by the company for sending notices relating to the share in question or the last known address of the member or other person entitled by transmission, giving notice of its intention to sell the share;

42.1.3 the company has not, during the further period of three months after the date of the advertisement and prior to the exercise of the power of sale, received any communication from the member or person entitled by transmission; and

42.1.4 the company has first given notice, and other information as may be required, in writing to the regulators of the Regulated Market where its shares are traded of its intention to sell such shares or stock.

42.2 To give effect to any such sale, the Board may, in relation to certificates shares, appoint any person to execute as transferor an instrument of transfer of such share and such instrument of transfer will be as effective as if it had been executed by the registered holder of or person entitled by the transmission to such share. In relation to uncertificated shares the Board may, in accordance with the Statutes, issue a written notification to the Operator of the relevant system requiring conversion of the shares into certificated form and exercise any of the company's powers to effect the transfer of the shares to, or in accordance with the directions of, the purchaser and the exercise of such powers will be as effective as if exercised by the registered holder of, or person entitled by shares the transferee is not bound to see to the application of the purchase money and the title of the transferee is not affected by any irregularity or invalidity in the proceedings relating to the sale.

42.3 The company must account to the member or other person entitled to such share for the net proceeds of such sale by crediting all money in respect of those proceeds to a separate account, which are a permanent debt of the company, and the company will be deemed to be a debtor and not a trustee in respect of it for such member or other person. Money carried to such separate account may either be employed in the business of the company or invested in such investments, other than shares of the company or its holding company if any, as the Board may from time to time think fit.

43. Destruction of documents

43.1 The company may destroy:

43.1.1 any share certificate which has been cancelled at any time after the expiry of one year from the date of such cancellation;

43.1.2 any dividend mandate or any variation or cancellation of it or any notification of change of name or address (including an electronic address) at any time after the expiry of two years from the date such mandate, variation, cancellation or notification was recorded by the company; or

43.1.3 any other document on the basis of which any entry in the Register is made at any time after the expiry of six years from the date an entry in the Register was first made in respect of it.

43.2 It will be conclusively presumed in favour of the company that every share certificate so destroyed was a valid certificate duly and properly cancelled, that every instrument of transfer so destroyed was a valid and effective instrument duly and properly registered and that every other document destroyed under regulation 43.1 was a valid and effective document, in accordance with its recorded particulars in the books or records of the company.

43.3 The provisions of regulation 43.2 apply only to the destruction of a document in good faith and without express notice to the company that the preservation of such document was relevant to a claim.

43.4 Nothing contained in regulation 43.1 is construed as imposing upon the company any liability in respect of the destruction of any such document earlier than as set out in regulation 43.1 or in any case where the conditions of regulation 43.3 are not fulfilled.

43.5 References in this regulation 43 to the destruction of any document include references to its disposal in any manner.

44. Winding-up

44.1 If the company is wound up, whether the liquidation is voluntary, under supervision or by the court, the liquidator may, with the authority of a special resolution, divide among the members (excluding any holding shares or treasury shares) in specie the whole or part of the assets of the company, whether or not the assets consist of property of one kind or of different kinds. For those purposes the liquidator may set such value as he deems fair upon any one or more class or classes of property and may determine how such division will be effected as between the members or different classes of members. If any such division is carried out otherwise than in accordance with the existing rights of the members, every member will have the same right of dissent and other ancillary rights as if such resolution were a special resolution passed in accordance with section 110, Insolvency Act 1986. The liquidator may, with the same authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the same authority, thinks fit and the liquidation of the company may be closed and the company dissolved. No member will be compelled to accept any shares in respect of which there is a liability.

44.2 The Board must exercise the power conferred upon them by section 247, CA 2006 only with the prior sanction of a special resolution. If at any time the capital of the company is divided into different classes of shares, the exercise of such power is deemed to be a variation of the rights attached to each class of shares and, accordingly, requires the prior consent in writing of the holders of three fourths in nominal value of the issued shares of each class (excluding treasury shares) or the prior sanction of a special resolution passed at a separate meeting of the holders of the shares of each class (excluding any shares of a class held as treasury shares) convened and held in accordance with the provisions of regulation 2.9.

45. Indemnity

Subject to the provisions of the Statutes, every Director or other officer (except the Auditors) of the company will be indemnified out of the assets of the company, against all costs, charges, expenses, losses and liabilities which he may sustain or incur in connection with the execution of his duties and powers or otherwise in relation to them. Without prejudice to the generality of the previous sentence, any such person will be indemnified out of the assets of the company against any liability incurred by him in defending any proceedings, whether civil or criminal, in relation to anything done or omitted or alleged to have been done or omitted by him as an officer of the company and in which judgment is given in his favour (or the proceedings are otherwise disposed of without any finding or admission of any material breach of duty by him) or in which he is acquitted or in connection with any application in which relief is granted to him by the court from liability for negligence, default, breach of duty or breach of trust in relation to the affairs of the company. Subject to the Statutes, the company may purchase and maintain for the company and for any Director, Secretary or other officer of the company insurance against any liability which by virtue of any rule of law would otherwise attach to him in respect of any negligence, default, breach of duty or breach of trust of which he may be liable for or guilty in relation to the company.

46. Indemnity against claims in respect of shares

46.1 The provisions of regulation 46.2 will apply whenever any law for the time being of any country, state or place imposes or purports to impose any immediate or future or possible liability on the company to make any payment, or empowers any government or taxing authority or government official to require the company to make any payment, in respect of any shares held either jointly or solely by a member or in respect of any dividends or other money due or payable or accruing due or which may become due or payable to such members by the company or in respect of any such shares or for or on account or in respect of any member in consequence of:

46.1.1 the death or bankruptcy of such member;

46.1.2 the non payment of any income tax or other tax by such member; or

46.1.3 the non payment of any inheritance tax or any estate, probate, succession, death, stamp or other duty by the executors or administrators or other legal personal representatives of such member or by or out of his estate.

46.2 In the circumstances described in regulation 46.1 the company:

46.2.1 will be fully indemnified by such member or his executors or administrators or his other legal personal representatives from all liability arising by virtue of such law; and

46.2.2 may recover as a debt due from such member or his executors or administrators or his other legal personal representatives wherever constituted or residing, any money paid by the company under or in consequence of any such law, together with interest on it at the rate of 15 per cent. per annum from the date of payment to the date of repayment.

46.3 Nothing contained in regulations 46.1 and 46.2 prejudices or affects any right or remedy which any law may confer or purport to confer on the company and, as between the company and every such member as is referred to in regulation 46.1, his executors, administrators or other legal personal representatives, and estate wherever constituted or situated, any right or remedy which such law confers or purports to confer on the company will be enforceable by the company.

47. Derivative actions

47.1 The rights provided under CA 2006 as are provided to shareholders in respect of derivative suits, shall apply to the company and to the rights of the members of the company to bring suits or claims against the company.

48. Lock up

48.1 Upon the Listing of the company's shares on a Regulated Market, the Board may decide that up to 100 per cent. of each members' free shares (i.e. unrestricted shares under the applicable rules and regulations) shall be restricted to sale or transfer according to the following provisions, such shares as restricted by the Board being **Restricted Shares**:

48.1.1 during the first six months commencing on the date of the Listing, no transfer of Restricted Shares is permitted;

48.1.2 as of the seventh and eighth month following the date of the Listing, such a holder may transfer shares that constitute up to 12.5 per cent. of his Restricted Shares per month; and

48.1.3 as of the ninth month following the date of the listing, the remaining Restricted Shares are no longer considered restricted.

48.2 In case of fractional shares the number of Restricted Shares shall be rounded up to the nearest integer.

Celsus Therapeutics Plc

October 23, 2013

Pablo Jimenez
166 South Street
Rockport, MA 01966 USA

Dear Pablo:

We are pleased to confirm the following terms in connection with your employment with Celsus Therapeutics Plc (the "**Company**")[1/].

1. **Position and Reporting**. You will serve as the Company's Chief Medical Officer. You will be required to travel to the Company's New York location, and such other places as is necessary in connection with your performance of your responsibilities hereunder. You will report to the Company's Chief Executive Officer (the "**CEO**"), or any such other person designated by the Company.

2. **Duties**. Your responsibilities will include, but not be limited to: general supervision and control over, and responsibility for, the Company's pre-clinical and clinical development activities; regulatory development, planning, and filings; and Company clinical presentations and development plan and strategy. In addition to your primary duties, you shall: (a) manage and direct all aspects of drug development and clinical operations including, Phases 1-3 clinical development and clinical trials; (b) be responsible for the development and commercialization of the Company's technology related to the treatment of inflammatory diseases; (c) design, draft, execute, reports on toxicology, pharmacology and Phase 1–3 clinical trials; (d) work with third party clinical sites, contract researchers and organizations, advisors, and consultants; (e) draft, develop, strategize for, prepare, and submit regulatory applications and present at regulatory meetings; (f) establish a strong relationship and credibility with biotechnology and healthcare analysts and numerous health care fund managers; (g) establish licensing partners and participate in industry collaboration; (h) present development updates in conference calls and in meetings with shareholders and potential investors; (i) help build shareholder value through investor meetings and presentations; and (j) such other duties and responsibilities as may be assigned to you from time to time by the CEO, and/or Executive Chairman, and/or the Company's Board of Directors (the "**Board**"). You shall devote your full business time and attention to the performance of your duties to the Company.

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1 / It is anticipated that the Company may in the future will re-organize under Delaware law and it is intended that any reference to the Company in this letter agreement includes the Company as so re-organized.

3. **Start Date and Assurances**. Your employment with the Company shall begin on October 23, 2013 (the "**Start Date**"). You represent that (i) you are not a party to any agreement that would prohibit you from entering into employment with the Company; (ii) no trade secret or proprietary information belonging to any previous employer will be disclosed by you at the Company and that no such information, whether in the form of documents (electronic or otherwise), memoranda, software, etc., will be retained by you or brought with you to the Company; and (iii) you have brought to the Company's attention and provided it with a copy of any agreement that may impact your future employment with the Company or performing the services contemplated, including but not limited to any non-disclosure, non-competition, non-solicitation or invention assignment agreements containing future work restrictions. You represent that prior to the Start Date you will not take any actions on behalf of the Company or engage in any discussions or communications on behalf of the Company, including, without limitation, with any prospective Company employees or other service providers.

4. **Compensation**. You will be entitled to an annual base salary ("**Base Salary**") at the rate of $240,000, which Base Salary shall accrue day to day, be subject to required holdings and paid in accordance with the Company's normal payroll practices applicable to similarly situated employees. The Base Salary will be reviewed annually and may be increased from time to time at the sole discretion of the Company.

5. **Annual Milestone Bonus**. At the sole discretion of the Board upon recommendation by the Compensation Committee (the "**Compensation Committee**"), following each calendar year of employment, you shall be eligible to receive a cash bonus of up to twenty-five percent (25%) of your Base Salary (the "**Annual Milestone Bonus**"), based on your attainment of certain clinical development, and/or business milestones over the course of the next sixteen (16) months as follows: execution and completion of first interpretable results of a Phase II atopic dermatitis trial, IND filing/acceptance, and a financing round(s) (the "**Milestones**"). The determination of whether you have met the Milestones, and if so, the bonus amount (if any) that will be paid, shall be determined by the Board in its sole and absolute discretion. You must remain employed by the Company through and including the Milestones in order to be eligible to earn or receive any Annual Milestone Bonus for that year. Any Annual Milestone Bonuses shall be paid in cash as either single lump-sum payment or in installments over a period not to exceed 6 months, as determined by the Board, but in no event later than March 15 of the calendar year following the calendar year in which the Milestone was achieved.

6. **Stock Options**. Subject to approval by the Board and subject to the terms of the Company's 2007 Stock Incentive Plan (the *"***Plan***"*), as soon as practicable following the Start Date, you will be granted an option to purchase One Hundred Thirty Thousand (130,000) shares of the Company's ESOP Plan (the "**Option**"). On each anniversary of the effective grant date of the Option, one-fourth of the shares subject to the Option shall vest, subject to your continued employment with the Company on each such vesting date. The Option will be governed by the Plan and shall be granted pursuant to a separate stock option grant notice and stock option agreement. The exercise price per share of the Option will be equal to the fair market value of a single share of Common Stock on the effective date of the grant upon approval by the Board pursuant to the Plan. You will be granted options to purchase an additional Seventy Thousand (70,000) shares of the Company's Common Stock subject to your attainment of certain clinical development, and/or business milestones over the course of the next sixteen (16) months as follows: execution and completion of first interpretable results an atopic dermatitis trial, and IND filing/acceptance.

7. **Employee Benefits**. You will be entitled to participate in the various group health, disability and other welfare plans ("**Benefit Plans**") and other employee programs, including sick and vacation time, as generally are offered to similarly situated employees from time to time. With respect to vacation, you will be entitled to 4 weeks of vacation per year subject to applicable Company policies. Up to 1 week of vacation may be carried forward for the subsequent year.

8. **Expenses**. You shall be reimbursed by the Company for all reasonable and necessary business expenses actually incurred by you in performing your duties hereunder. In addition, the Company will (a) reimburse you in an amount up to $100.00 per month (which amount shall be pro-rated for any partial months of employment based on the number of days employed in the month) for routine, domestic mobile phone charges, provided you submit documentation supporting the charges, and (b) reimburse you for the fees for your membership in the American College of Physicians. All reimbursements will be made in accordance with policies established by the Company from time to time and subject to receipt by the Company of appropriate documentation supporting the expenses. All expense reimbursements shall be paid as soon as administratively practicable. If an expense reimbursement is not exempt from Section 409A of the Internal Revenue Code, the following rules apply: (i) in no event shall any reimbursement be paid after the last day of the taxable year following the taxable year in which the expense was incurred; (ii) the amount of reimbursable expenses incurred in one tax year shall not affect the expenses eligible for reimbursement in any other tax year; and (iii) the right to reimbursement for expenses is not subject to liquidation or exchange for any other benefit.

9. **Company Credit Card**. If you are issued a Company credit card, you must (a) take good care if the card and immediately report any loss of it to the CEO or the Chairman of the Board, (b) use it for business expenses in accordance with Company policy, and (c) return it immediately to the Company upon request.

10. **Employment Verification**. Pursuant to federal law, this offer of employment is conditioned on your ability to provide satisfactory proof of your eligibility to work in the United States within three days of your first day of work.

11. **Company NDA.** As a condition of your employment with the Company, you will be required to execute the Celsus Therapeutics Plc Confidentiality, Intellectual Property, Non-Competition, and Non-Solicitation Agreement (the "**NDA**"), attached hereto as Attachment A.

12. **Nondisparagement**. You agree that you will not, whether during your employment or thereafter, directly or indirectly, make or ratify any statement, public or private, oral or written, to any person that disparages, either professionally or personally, the Company or any of its affiliates, past and present, and each of them, as well as its and their trustees, directors, officers, members, managers, partners, agents, attorneys, insurers, employees, stockholders, representatives, assigns, and successors, past and present, and each of them.

13. **Confidentiality**. You will maintain the confidentiality of this letter agreement (and any related understandings, including your compensation arrangements and amounts) at all times and will not discuss such matters with any person other than your spouse, accountant, financial and tax advisors or attorney, except that you may make such disclosure (a) to the extent necessary with respect to any litigation, arbitration or mediation involving this letter agreement, or (b) when disclosure is required by law or by any court or arbitrator with apparent jurisdiction to order you to disclose or make accessible any information.

14. **At-Will Employment**. Your employment with the Company is "At-Will." This means that, subject to the "Notice Entitlement" paragraph below, you and the Company each have the right to terminate your employment at any time, for any reason. This letter is not a contract of employment and is not to be construed or interpreted as containing any guarantee of continued employment or employment for any definite period of time. Accordingly, the recitation of certain time periods in this letter is solely for the purpose of defining your compensation and benefits. This letter also is not to be construed or interpreted as containing any guarantee of any particular level or nature of compensation or benefits, and the level or nature of compensation or benefits may be terminated or modified by the Company at any time without or without notice.

15. **Notice Entitlement.** The Company may terminate your employment with or without Cause. The period of notice that we will give you to terminate your employment without Cause (and other than due to your death or Disability) is 3 months. The Company may terminate your employment for Cause without notice. You must provide the Company with 3 months notice of your resignation for any reason. We reserve the right to require you to not be in the Company's offices and/or not to undertake all or any of your duties and/or not to contact Company vendors, clients, colleagues or advisors (unless otherwise instructed) during all or part of any period of notice of your termination of service or resignation. During any such period, you remain a service provider to the Company with all duties of fidelity and confidentiality to the Company and subject to all terms and conditions of your employment and should not be employed or engaged in any other business. Notwithstanding the foregoing, we reserve the right to pay you in lieu of notice on a termination without Cause or, in the event of your resignation, terminate you immediately or at any time during the notice period and pay you in lieu thereof without the requirement that you perform services for the Company.

This letter and the NDA reflect the entire agreement regarding the terms and conditions of your employment. Accordingly, it supersedes and completely replaces any prior oral or written communication on this subject. This letter agreement may not be modified, amended or waived unless in a writing signed by both parties. This letter agreement shall inure to the benefit of the successors or general assigns of the Company. This letter agreement is non-assignable except as provided herein. This letter agreement shall be governed by, interpreted and construed in accordance with the laws of the State of New York without regard to any state's principles of conflicts of laws.

We look forward to having you join the Company.

If you agree with the foregoing, please sign this letter in the space provided below and return the original executed copy.

Celsus Therapeutics Plc

By: /s/ Gur Roshwalb
Name: Gur Roshwalb
Title: President

By: /s/ Mark Cohen
Name: Mark Cohen
Title: Executive Chairman

Pablo Jimenez

/s/ Pablo Jimenez

Additional Definitions

"**Cause**" means a termination of your employment because you: (i) breached or failed to perform your obligations to the Company, including the obligations in the NDA; (ii) engaged in conduct that causes or is reasonably expected to cause harm to the Company or your professional reputation, monetarily or otherwise; (iii) are indicted or convicted of any criminal conduct (or than a moving infraction) or are found to be in violation of any regulation relating to insider dealing trading, or you breach of the code on directors' dealings in listed securities adopted from time to time by the Company or any affiliate of the Company; (iv) failed to perform or are, in the reasonable opinion of the Board, incapable of properly performing your duties to the Company, if you have been given due warning in writing by the Company of your poor performance or incapability and have failed within the specified period to meet the required standard; or (v) wilfully neglected or refused to discharge your duties or to attend to the business of the Company.

"**Disability**" means a physical or mental impairment that has rendered you unable to perform the essential functions of your employment, even with reasonable accommodation that does not impose an undue hardship, for more than 90 consecutive calendar days, unless a longer period is required by applicable law, in which case that longer period would apply. The determination of whether or not a Disability exists for purposes of this letter agreement shall be made by the Company upon receipt and in reliance on competent medical advice from one or more individuals, selected by the Company, who are qualified to give such professional medical advice.

ATTACHMENT A

Celsus Therapeutics Plc

Confidentiality, Intellectual Property, Non-Competition and Non-Solicitation Agreement

This Confidentiality, Intellectual Property, Non-Competition and Non-Solicitation Agreement ("**Agreement**") is made as of the Start Date (as defined below) between Celsus Therapeutics Plc (collectively with its parents, subsidiaries and affiliates, the "**Company**"), and Pablo Jimenez, an individual, (the "**Employee**").

WHEREAS, the Company desires to employ the Employee and the Employee desires to be employed by the Company on the terms contained in that certain offer letter dated as of October 23, 2013 (the "**Offer Letter**") with this Agreement, pursuant to which the Employee's employment with the Company will commence on the Start Date (as defined in the Offer Letter);

WHEREAS, as a condition of employing Employee as set forth in the Offer Letter, the Company requires that the Employee enter into this Agreement;

NOW, THEREFORE,in consideration of the mutual covenants and agreements herein contained, including without limitation the Company's employment of the Employee and the compensation s/he will receive in connection with his/her employment, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Confidential Information. As used in this Agreement, "**Confidential Information**" means any and all data, information, conceptions, know-how, materials, intellectual property and their rights thereof, in whatever form including and without limitation to include, any and all information relating to the Company's current and future business activities, products, regulatory, technology, business, including, without limitation, financial information, reports, and forecasts; regulatory information, sales projections; inventions, improvements and other intellectual property, results, reports, trade secrets; data, know-how; designs, algorithms, methods, processes, treatments, conceptions, compositions, materials, formulations or formulae; software; market or sales information or plans; customer lists (including identity, customer contact information, preferences and purchase history); vendors (including identity, contact information, pricing and services); business plans, prospects and opportunities (such as possible acquisitions or dispositions of businesses or facilities); current and future business expansion plans and opportunities; pricing and pricing strategies; licensee, licensor information, and the terms and conditions of any license agreement and employee information, which is disclosed to Employee by or on behalf of the Company and/or is otherwise acquired by the Employee. Confidential Information also includes, without limitation, information developed, resulting from, and/or generated by the Employee in the course of the Employee's employment by the Company, as well as other information to which the Employee may have access in connection with his/her employment. Confidential Information also includes the confidential information of others with which the Company has a business relationship. Notwithstanding the foregoing, Confidential Information does not include: (a) information which now or in the future comes into the public domain, unless due to breach of the Employee's duties under Section 2; (b) information which is disclosed to Employee by others who are not, to Employee's knowledge, under obligation of non-disclosure to the Company; or (c) information which is disclosed by the Company to others without obligation of confidentiality.

2. Confidentiality. At all times, both during the Employee's employment with the Company and after its termination, the Employee will keep in confidence and trust all Confidential Information, and will not use, transfer, or disclose for his/her own benefit or the benefit of any other Person any such Confidential Information without the written consent of the Company, except as may be necessary in the ordinary course of performing the Employee's duties to the Company.

3. Documents, Records, Etc. All documents, materials, records, files, communications, images, data, apparatus, equipment and other physical property, whether or not pertaining to Confidential Information and in whatever form (electronic or otherwise), which are furnished to the Employee by the Company or are produced by the Employee in connection with the Employee's employment will be and remain the sole and exclusive property of the Company. The Employee will return to the Company all such materials and property as and when requested by the Company. In any event, the Employee will return all such materials and property immediately upon termination of the Employee's employment for any reason. The Employee will not retain any such material or property or any copies thereof after the termination of his/her employment.

4. No Competition. From the Start Date through the end of the six-month period following the termination of the Employee's employment (the "**Termination Date**"), whether such termination is voluntary or involuntary and regardless of the reason for the termination, (the "**Restricted Period**") the Employee will not, directly or indirectly, whether as owner, partner, shareholder, consultant, agent, employee, co-venturer or otherwise, engage, prepare to engage, participate, solicit, assist or invest in any Competing Business located in any geographic area in which the Company (i) does business, distributes its products, or provides its services as of the Termination Date, or (ii) actively pursued a business, development, or expansion opportunity, prior to the Termination Date. Notwithstanding the foregoing, (i) the Employee may own up to 2% of the outstanding stock of a publicly held corporation which constitutes or is affiliated with a Competing Business, (ii) the Employee may provide strategic advice outside of working hours to Qara Bio-Pharmaceutical Solutions, LLC provided that any such strategic advice does not relate to any Competing Business and (iii) the Employee may work in a clinical medical practice for up to one (1) morning of one (1) day per week, so long as Employee is not involved with or assisting such Competing Business, and so long as Employee does not breach his/her obligations regarding Confidential Information.

5. No Solicitation. During the Restricted Period, the Employee shall not, directly or indirectly, take any of the following actions, and, to the extent the Employee owns, manages, operates, controls, is employed by or participates in the ownership, management, operation or control of, or is connected in any manner with, any business, the Employee shall use his/her best efforts to ensure that such business does not take any of the following actions:

(a) persuade or attempt to persuade any Customer, Prospective Customer or Supplier to cease doing business with the Company, or to reduce the amount of business it does with the Company;

(b) solicit or service for himself/herself or for any Person the business of a Customer, Prospective Customer or Supplier in order to provide goods or services that are competitive with the goods and services provided by the Company;

(c) persuade or attempt to persuade any Service Provider to cease providing services to the Company; or

(d) solicit for hire or hire for himself/herself or for any third party any Service Provider.

(e) The following definitions are applicable to Section 4 and this Section 5:

(i) "Competing Business" means any business that is in the business of developing, manufacturing or marketing anti-inflammatory agents, compounds or methods, and any other business in which the Company becomes engaged following the Start Date.

(ii) "Customer" means any Person that purchased goods or services from the Company at any time within 2 years prior to the date of the solicitation prohibited by Section 5(a) or (b).

(iii) "Prospective Customer" means any Person with whom the Company met or to whom the Company presented for the purpose of soliciting the Person to become a Customer of the Company within 12 months prior to the date of the solicitation prohibited by Section 5(a) or (b).

(iv) "Service Provider" means any Person who is an employee or independent contractor of the Company or who was within twelve (12) months preceding the solicitation prohibited by Section 5(c) or (d) an employee or independent contractor of the Company.

(v) "Supplier" means any Person that sold goods or services to the Company at any time within twelve (12) months prior to the date of the solicitation prohibited by Section 5(a) or (b).

(vi) "Person" means an individual, a sole proprietorship, a corporation, a limited liability company, a partnership, an association, a trust, or other business entity, whether or not incorporated.

6. Intellectual Property.

(a) All Confidential Information, information, creations, data, documents, records, results, reports, discoveries, inventions, ideas, conceptions, designs, software, improvements, enhancements, methods, processes, compositions, materials, formulas, formulations, trade secrets, treatments, analyses, data rights, know-how, copyrightable materials, trademarks, and other technology and rights (and any related improvements or modifications), whether or not subject to patent or copyright protection (collectively, "**Creations**"), relating to any activities of the Company which were, are, or will be conceived by the Employee and/or developed and/or generated and/or derived by the Employee in the course of and/or in connection with his/her employment or other services with the Company and/or resulting from and/or arising under Employees employment and/or Confidential Information, whether conceived alone or with others and whether or not conceived or developed during regular business hours, and if based on or resulting from Confidential Information, also after the termination of the Employee's employment, shall be the sole and exclusive property of the Company and, to the maximum extent permitted by applicable law, shall be deemed "works made for hire" as that term is used in the United States Copyright Act. The Employee agrees to and shall assign and will assign to the Company, without any further compensation, all Creations conceived or developed from the start of this employment with the Company through to the Termination Date, and after the Termination Date if the Creation incorporates and/or is based on and/or resulting from any Confidential Information. All Creations shall be treated by Employee as Company's Confidential Information.

(b) To the extent, if any, that the Employee retains any right, title or interest with respect to any Creations delivered to the Company or related to his/her employment with the Company, the Employee hereby assigns and will assign to the Company, and grants to the Company an irrevocable, paid-up, transferable, sub-licensable, worldwide right and license: (i) to modify all or any portion of such Creations, including, without limitation, the making of additions to or deletions from such Creations, regardless of the medium (now or hereafter known) into which such Creations may be modified and regardless of the effect of such modifications on the integrity of such Creations; and (ii) to identify the Employee, or not to identify him/her, as one or more authors of or contributors to such Creations or any portion thereof, whether or not such Creations or any portion thereof have been modified. The Employee further waives any "moral" rights, or other rights with respect to attribution of authorship or integrity of such Creations that s/he may have under any applicable law, whether under copyright, trademark, unfair competition, defamation, right of privacy, contract, tort or other legal theory

(c) The Employee will promptly inform and transfer to the Company of any Creations. The Employee will also allow the Company to inspect any Creations s/he conceives or develops within one (1) year after the termination of his/her employment for any reason to determine if they are based on Confidential Information. The Employee shall (whether during his/her employment or after the termination of his/her employment) execute such written instruments and do other such acts as may be necessary in the opinion of the Company or its counsel to secure the Company's rights in the Creations, including obtaining a patent, registering a copyright, or otherwise (and the Employee hereby irrevocably appoints the Company and any of its officers as his/her attorney in fact to undertake such acts in his/her name). The Employee's obligation to execute written instruments and otherwise assist the Company in securing its rights in the Creations will continue after the termination of his employment for any reason. The Company shall reimburse the Employee for any out-of-pocket expenses (but not attorneys' fees) s/he incurs in connection with his/her compliance with this Section 6(c).

7. Acknowledgement. The Employee understands that the restrictions set forth in this Agreement are intended to protect the Company's interest in its Confidential Information, goodwill and established employee and customer relationships, and agrees that such restrictions are reasonable and appropriate for this purpose.

8. Disputes.

(a) The Employee agrees that it would be difficult to measure any damages caused to the Company which might result from any breach by the Employee of the promises set forth in this Agreement, and that in any event, money damages would be an inadequate remedy for any such breach. Accordingly, if the Employee breaches, or proposes to breach, any term of this Agreement, the Company shall be entitled, in addition to all other remedies that it may have, to a temporary and preliminary injunction or other appropriate equitable relief to restrain any such breach without showing or proving any actual damage to the Company from any court having competent jurisdiction over the Employee.

(b) The parties agree to resolve any dispute arising under or relating to this Agreement before the United States District Court or the state courts of the Commonwealth of Massachusetts encompassing Boston, and hereby consent to the exclusive jurisdiction of such courts. Accordingly, with respect to any such court action, the Employee and the Company each: (i) submits to the personal jurisdiction of these courts; (ii) consents to service of process under the notice provisions set forth in Section 9(a); (iii) waives any other requirement (whether imposed by statute, rule of court, or otherwise) with respect to personal jurisdiction or service of process; and (iv) waives any objection to jurisdiction based on improper venue or improper jurisdiction.

(c) BOTH THE COMPANY AND THE EMPLOYEE HEREBY WAIVE ANY RIGHT TO A TRIAL BY JURY TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE FEDERAL OR STATE LAW.

(d) The Company shall be entitled to reasonable attorneys' fees and costs in connection with any action filed under this Section if it prevails in such action.

9. Miscellaneous.

(a) Notices. Any notices, requests, demands and other communications provided for by this Agreement shall be sufficient if in writing and delivered in person or sent by a nationally recognized overnight courier service or by registered or certified mail, postage prepaid, return receipt requested, to the Employee at the last address the Employee has filed in writing with the Company or, in the case of the Company, at its main offices, attention of the Chief Executive Officer.

(c) Validity. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall otherwise remain in full force and effect. Moreover, if any one or more of the provisions contained in this Agreement is held to be excessively broad as to duration, scope or activity, such provisions shall be construed by limiting and reducing them so as to be enforceable to the maximum extent compatible with applicable law.

(d) Waivers. The waiver by the Company or the Employee of any right under this Agreement or of any failure to perform or any breach by the other shall not be deemed a waiver of any other right under this Agreement or of any other failure or any other breach by such party, whether of the same or a similar nature or otherwise. No waiver shall be deemed to have occurred unless set forth in writing executed by or on behalf of the waiving party. No such written waiver shall be deemed a continuing waiver unless specifically stated therein, and each such waiver shall operate only as to the specific term or condition waived and shall not constitute a waiver of such term or condition for the future or as to any act other than that specifically waived.

(e) Governing Law. This agreement shall be governed by and construed in accordance with the laws of New York without regard to any state's principles of conflicts of law.

(f) Successors; Binding Agreement. This Agreement and the rights and obligations of the Company and the Employee under this Agreement shall inure to each party's benefit and to the benefit of each party's respective heirs, personal representatives, successors and assigns. The Employee specifically agrees that the Company may assign this Agreement to any successor.

(g) Entire Agreement. This Agreement sets forth the entire agreement and understanding of the Company and the Employee with respect of its subject matter, and supersedes all prior agreements, promises, covenants, arrangements, communications, representations or warranties, whether oral or written, by any officer, executive or representative of either party in respect of said subject matter.

(i) Headings Descriptive. The headings of the Sections of this Agreement are inserted for convenience only and shall not in any way affect the meaning or construction of this Agreement.

(j) Capacity. The Employee represents and warrants that s/he is not a party to any agreement that would prohibit her/him from entering into this Agreement or performing fully his/her obligations under this Agreement.

WHEREFORE, the parties have executed this Agreement effective on the date and year first above written.

CELSUS THERAPEUTICS PLC

By: _____
Name:
Title:

EMPLOYEE

_____
Pablo Jimenez

Celsus Therapeutics plc
Thames House
Portsmouth Road
Esher
Surrey KT10 9AD

Our ref: AK\27475\0001\8060744v1\CXC
Your ref:
Date: 24 October 2013

Dear Sirs

Celsus Therapeutics plc (company number 05252842) (Company)

We act as legal advisers to Celsus Therapeutics plc, a public limited company formed under the laws of England and Wales (**Company**) in connection with the filing of a registration statement on Form F-1 (**Registration Statement**) to be filed by the Company with the United States Securities and Exchange Commission under the United States Securities Act of 1933, as amended (**Act**) relating to the registration for resale of certain Ordinary Shares in the Company.

1. Documents

For the purposes of this Opinion, we have examined such corporate records, documents, agreements and such matters of law as we have considered necessary or appropriate for the purpose of this Opinion, including the following documents (collectively, the **Documents**):

1.1 memorandum of association of the Company as held on the register by the Registrar of Companies at Companies House, downloaded from the Companies House website on 24 October 2013 (**Memorandum**);

1.2 the articles of association of the Company as held on the register by the Registrar of Companies at Companies House downloaded from the Companies House website on 24 October 2013 (**Articles**);

1.3 a Securities Purchase Agreement provided by the Company, dated September 19, 2013;

1.4 a registration rights agreement between the Company and the buyers as set out in such document dated September 19, 2013 (Registration Rights Agreement),

Documents 1.3 to 1.4 will be referred to as the **Transaction Documents**;

1.5 copy resolutions of the Company in general meeting held by the Company on 13 June 2007 and 28 June 2012 authorising the directors to allot shares and to disapply pre-emption rights for a period of five years;

1.6 minutes of the board of directors of the Company dated 10 September 2013 and 23 October 2013 authorising the issuing of certain shares in the Company;

1.7 e-mail from the Company secretary dated 18 October 2013 stating that the Company has sufficient head room to issue certain shares being issued by the Company pursuant to the Transaction Documents(**Secretary's Certificate**).

We have relied upon the Documents without independent investigation of the matters provided for in such Documents for the purpose of providing our opinions expressed below.

2. Assumptions

For the purposes of this Opinion we have assumed without investigation:

2.1 that the Documents (whether originals or copies) are authentic and complete, that all signatures (to the extent that there are any) are genuine and that all Documents identified as copies conform with their originals;

2.2 that the information disclosed by our online searches on 24 October 2013 of the register and public documents of the Company at Companies House and our enquiries of the Central Registry of Winding Up Petitions in relation to the Company was then accurate and has not since then been altered;

2.3 that the information supplied to us by the Company Secretary in the Secretary's Certificate is correct;

2.4 the capacity, power, authority and ability of each of the parties other than the Company to enter into, carry out and fulfil their obligations and liabilities in connection with the Transaction Documents and that each of the parties other than the Company is currently in good standing in its jurisdiction of registration;

2.5 the due execution and delivery of the Transaction Documents, in compliance with all requisite corporate authorisations and in compliance with the laws of all jurisdictions, by each of the parties to them;

2.6 the choice of law under each of the Transaction Documents expressed to be governed by any law other than by English law was made for a lawful and proper purpose and is a valid and binding choice under the relevant law;

2.7 that the persons executing each of the Transaction Documents, other than the Company, were duly authorised to do so and had the power to bind the applicable party;

2.8 that, except as to those matters of law on which we give this Opinion, the representations and warranties given by each party in the Transaction Documents were at all relevant times and remain true and accurate;

2.9 that there is nothing in the laws of any applicable jurisdiction (other than England and Wales) which prohibits or limits or prevents the Company or any other party to the Transaction Documents from executing or entering into the Transaction Documents or any document referred to in the Transaction Documents or fulfilling all of the obligations and covenants set out in the Transaction Documents or any document referred to in the Transaction Documents. Furthermore, there is nothing in the laws of any jurisdiction, other than England and Wales, which limits, prevents or prohibits any other party to the Transaction Documents from exercising any of the rights granted to them under any of the Transaction Documents or any document referred to in the Transaction Documents;

2.10 that there are no provisions of the laws of any applicable jurisdiction, other than England and Wales, which would be contravened by the execution, delivery or performance of the Transaction Documents or any document referred to in the Transaction Documents and that, in so far as any obligation under the Transaction Documents or any document referred to in the Transaction Documents falls to be performed in any jurisdiction, other than England and Wales, its performance will not be illegal or adversely affected by virtue of the laws or regulations of or applicable in that jurisdiction;

2.11 to the extent that the obligations of any of the parties may be dependent upon such matters:

2.11.1 that each party (other than the Company) to the Transaction Documents is duly incorporated and organised and validly existing under the laws of its incorporation; and

2.11.2 that all acts, conditions and things required to be done, fulfilled or undertaken under any law (including any and all authorisations and consents of any public authority of any jurisdiction), other than that of England and Wales, in respect of the lawful execution or performance of the Transaction Documents and in order to ensure that the Transaction Documents are binding upon and enforceable against such parties have been or will be done, fulfilled, undertaken or obtained;

2.12 that the Memorandum filed with the Registrar of Companies was true, complete and up to date as at the date of this Opinion;

2.13 that the opinions expressed below will not be affected by the laws of any jurisdiction (other than England and Wales);

2.14 that any agreements examined by us are on the date of this Opinion, and will be on the date that any shares are to be issued pursuant to such agreements, legal, valid and binding under the laws by which they are (or are expressed to be) governed;

2.15 that the Company is contractually obliged to issue 5,305,784 of the shares referred to in paragraph 3.1 under the term of a non dilution obligation contained in the Securities Purchase Agreement (**Issue Shares**);

2.16 an amount which was not less than the par value for each of the Shares beingt issued and referred to in paragraph 3.1 was paid to the Company by a party which was not the Company or an agent of the Company; and

2.17 that the Documents executed by each individual subscriber contains no material alterations to the documents we reviewed.

3. Opinion

Based upon and subject to the above, and subject to the reservations mentioned below and to any matters not disclosed to us, we are of the opinion as follows:

3.1 the Registration Statement refers to the following shares of the Company to be registered for resale:

Title of each class of securities to be registered	**Amount to be registered**
Ordinary Shares £0.01 par value per share (**Ordinary Shares**)	27,264,086

3.2 the Company is a corporation duly incorporated, validly existing and in good standing under the laws of England and Wales;

3.3 the Ordinary Shares will be, when registered in the company's register of members, duly authorised, validly issued, fully paid and non assessable.

For the purposes of this Opinion, we have assumed the term "non-assessable" in relation to the Ordinary Shares means under English law that holders of such Shares, in respect of which all amounts due on such Shares as to the nominal amount and any premium thereon have been fully paid, will be under no obligation to contribute to the liabilities of the Company solely in their capacity as holders of such Shares and that such holders will have no obligation to make any payments or contributions to the Company or its creditors solely by reason of such holder's ownership of the Shares.

4. Reservations

Our reservations are as follows:

4.1 we express no opinion as to any law other than English law in force at and as interpreted at the date of this Opinion. We are not qualified to, and we do not, express an opinion on the laws of any other jurisdiction. In particular, we have not independently investigated the laws of the United States or of any state within the United States for the purpose of this Opinion or in connection with the Transaction Documents or the transactions contemplated by them and we have no knowledge as to how the laws of any jurisdiction (other than England and Wales) might impact on the obligations of the Company or any other party to the Transaction Documents arising from any of the Transaction Documents;

4.2 we express no opinion as to any document other than the Transaction Documents;

4.3 without limiting any other assumption or reservation made in this Opinion, we have not investigated whether the Company or any other party to any of the Transaction Documents is or will by reason of the execution of, or the transactions contemplated by, the Transaction Documents or any document referred to in the Transaction Documents be in breach of any of its obligations under any licence, authorisation, consent, agreement or document, other than, in respect of the Articles and the Memorandum;

4.4 we express no opinion as to the tax treatment or consequences of the Transaction Documents or the transactions contemplated by them including the transfer of any shares in the share capital of the Company;

4.5 we have not carried out any of due diligence other than as specifically stated in this Opinion concerning any factual matters relating to the transaction arising out of any Transaction Documents, including having made no investigation into the truthfulness or accuracy of any of the warranties or representations given by the Company. Furthermore, we have not reviewed the Registration Statement.

4.6 this Opinion speaks only as at the date hereof. Notwithstanding any reference herein to future matters or circumstances, we have no obligation to advise the addressee (or any third party) of any changes in the law or facts that may occur after the date of this Opinion.

5. Consent to filing of opinion

This opinion is to be:

5.1 governed by and will be construed in accordance with English law as at today's date and we accept no responsibility for any change in English law after today's date; and

5.2 any action arising out of it is subject to the exclusive jurisdiction of the English courts.

We hereby consent to the filing of this Opinion with the Registration Statement in its full form. In giving such consent, if and to the extent that this might otherwise apply in relation to the giving of an opinion governed by English law, we do not admit that we are in the category of persons whose consent is required under section 7 of the US Securities Act, or the Rules and Regulations thereunder.

Yours faithfully

/s/ Fladgate LLP

Fladgate LLP

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CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the reference to our firm under the caption "Experts" and to the use of our report dated March 21, 2013 (Except for Note 1(c) to which the date is October 24, 2013) in the Registration Statement on Form F-1 and related Prospectus of Celsus Therapeutics Plc. (formerly Morria Biopharmaceuticals Plc.), dated October 24, 2013.

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

Tel-Aviv, Israel
October 24, 2013