

ORAMED PHARMACEUTICALS INC.
Form 10-Q
January 14, 2014

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

FORM 10-Q

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

For the quarterly period ended November 30, 2013

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

Commission file number: 000-50298

ORAMED PHARMACEUTICALS INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of Incorporation or
Organization)

98-0376008
(I.R.S. Employer Identification No.)

Hi-Tech Park 2/4 Givat Ram

PO Box 39098

Jerusalem, Israel

(Address of Principal Executive Offices)

91390

(Zip Code)

+ 972-2-566-0001

(Registrant's Telephone Number, Including Area Code)

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

Yes No

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

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer,

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or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated
filer

Accelerated filer

Non-accelerated
filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of January 13, 2014 there were 9,745,166 shares of the issuer’s common stock, \$0.012 par value per share, outstanding.

ORAMED PHARMACEUTICALS INC.

FORM 10-Q

TABLE OF CONTENTS

<u>PART I – FINANCIAL INFORMATION</u>	1
<u>ITEM 1 - FINANCIAL STATEMENTS</u>	1
<u>ITEM 2 - MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	2
<u>ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	7
<u>ITEM 4 - CONTROLS AND PROCEDURES</u>	7
<u>PART II - OTHER INFORMATION</u>	8
<u>ITEM 2 - UNREGISTERED SALESES OF SECURITIES AND USE OF PROCEEDS</u>	8
<u>ITEM 6 - EXHIBITS</u>	8

As used in this Quarterly Report on Form 10-Q, the terms “we,” “us,” “our” and the “Company” mean Oramed Pharmaceuticals Inc. and our wholly-owned Israeli subsidiary, Oramed Ltd., unless otherwise indicated. All dollar amounts refer to U.S. Dollars unless otherwise indicated.

On November 30, 2013, the exchange rate between the NIS and the dollar, as quoted by the Bank of Israel, was NIS 3.523 to \$1.00. Unless indicated otherwise by the context, statements in this Quarterly Report on Form 10-Q that provide the dollar equivalent of NIS amounts or provide the NIS equivalent of dollar amounts are based on such exchange rate.

PART I – FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

ORAMED PHARMACEUTICALS INC.
(A development stage company)

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF NOVEMBER 30, 2013

ORAMED PHARMACEUTICALS INC.
(A development stage company)

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF NOVEMBER 30, 2013

TABLE OF CONTENTS

	Page
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS:	
<u>Balance sheets</u>	F-2
<u>Statements of comprehensive loss (income)</u>	F-3
<u>Statements of changes in stockholders' equity</u>	F-4 - F-6
<u>Statements of cash flows</u>	F-7
<u>Notes to financial statements</u>	F-8 - F-15

ORAMED PHARMACEUTICALS INC.
(A development stage company)
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
U.S. dollars

	November 30, 2013	August 31, 2013
A s s e t s		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,370,753	\$ 2,272,228
Short term deposits	5,459,254	5,246,627
Marketable securities	962,392	956,376
Restricted cash	16,000	16,000
Prepaid expenses and other current assets	172,917	90,103
Related parties	5,097	4,530
Grants receivable from the chief scientist	-	58,412
T o t a l c u r r e n t a s s e t s	7,986,413	8,644,276
LONG TERM DEPOSITS AND INVESTMENT		
	4,593	4,593
AMOUNTS FUNDED IN RESPECT OF EMPLOYEE RIGHTS UPON RETIREMENT		
	5,830	5,545
PROPERTY AND EQUIPMENT, NET		
	8,792	5,768
T o t a l a s s e t s	\$ 8,005,628	\$ 8,660,182
Liabilities and stockholders' equity		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 621,274	\$ 450,941
Account payable with former shareholder	47,252	47,252
T o t a l c u r r e n t l i a b i l i t i e s	668,526	498,193
LONG TERM LIABILITIES:		
Employee rights upon retirement	8,678	8,004
Provision for uncertain tax position	23,210	23,210
	31,888	31,214
COMMITMENTS (note 2)		
STOCKHOLDERS' EQUITY:		
Common stock, \$ 0.012 par value (16,666,667 authorized shares; 7,947,872 and 7,937,872 shares issued and outstanding as of November 30, 2013 and August 31, 2013, respectively)	95,358	95,238
Accumulated other comprehensive income	334,173	303,403
Additional paid-in capital	30,123,592	29,855,723
Deficit accumulated during the development stage	(23,247,909)	(22,123,589)
T o t a l s t o c k h o l d e r s ' e q u i t y	7,305,214	8,130,775

T o t a l liabilities and stockholders' equity	\$ 8,005,628	\$ 8,660,182
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The accompanying notes are an integral part of the condensed consolidated financial statements.

F - 2

ORAMED PHARMACEUTICALS INC.
(A development stage company)
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (INCOME)
(UNAUDITED)
U.S. dollars

	Three months ended		Period from April 12, 2002 (inception) through November 30, 2013
	November 30, 2013	November 30, 2012	
RESEARCH AND DEVELOPMENT EXPENSES, NET	\$750,510	\$392,626	\$12,554,998
IMPAIRMENT OF INVESTMENT	-	-	434,876
GENERAL AND ADMINISTRATIVE EXPENSES	417,727	339,213	10,611,403
OPERATING LOSS	1,168,237	731,839	23,601,277
FINANCIAL INCOME	(46,123)	(72,244)	(433,776)
GAIN ON SALE OF INVESTMENT	-	-	(1,033,004)
IMPAIRMENT OF AVAILABLE- FOR-SALE SECURITIES	-	-	381,666
FINANCIAL EXPENSE	2,206	299,158	696,032
LOSS BEFORE TAXES ON INCOME	1,124,320	958,753	23,212,195
TAXES ON INCOME	-	-	35,714
NET LOSS FOR THE PERIOD	\$1,124,320	\$958,753	\$23,247,909
SUBSEQUENT INCREASE IN THE FAIR VALUE OF AVAILABLE FOR SALE SECURITIES PREVIOUSLY WRITTEN DOWN AS IMPAIRED	(5,322)	(117,347)	(136,167)
RECLASSIFICATION ADJUSTMENT TO FINANCIAL INCOME OF GAINS ON AVAILABLE-FOR-SALE SECURITIES	18,454	-	108,824
UNREALIZED GAIN ON AVAILABLE FOR SALE SECURITIES	(43,902)	(118,521)	(306,830)
TOTAL OTHER COMPREHENSIVE INCOME	(30,770)	(235,868)	(334,173)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	\$1,093,550	\$722,885	\$22,913,736
BASIC AND DILUTED LOSS PER COMMON SHARE	\$0.14	\$0.14	
WEIGHTED AVERAGE NUMBER OF COMMON SHARES USED IN COMPUTING BASIC AND DILUTED LOSS PER COMMON STOCK*	7,941,059	6,826,896	

*See note 1a(3).

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

ORAMED PHARMACEUTICALS INC.
(A development stage company)
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(UNAUDITED)
U.S. dollars

	Common Stock Shares*	\$	Additional paid-in capital	Accumulated Other Comprehensive Income	Deficit accumulated during the development stage	Total stockholders' equity
BALANCE AS OF APRIL 12, 2002 (inception)	2,902,589	\$34,828	\$18,872	-	-	\$ 53,700
CHANGES DURING THE PERIOD FROM APRIL 12, 2002 THROUGH AUGUST 31, 2007 :						
SHARES CANCELLED	(1,650,000)	(19,800)	19,800	-	-	-
SHARES ISSUED FOR INVESTMENT IN ISTI-NJ	95,368	1,144	433,732	-	-	434,876
SHARES ISSUED FOR OFFERING COSTS	146,079	1,753	(1,753)	-	-	-
SHARES AND WARRANTS ISSUED FOR CASH- NET OF ISSUANCE EXPENSES	2,265,514	27,181	2,095,800	-	-	2,122,981
SHARES ISSUED FOR SERVICES	10,417	125	98,625	-	-	98,750
CONTRIBUTIONS TO PAID IN CAPITAL	-	-	18,991	-	-	18,991
STOCK BASED COMPENSATION RELATED TO OPTIONS GRANTED TO EMPLOYEES AND DIRECTORS	-	-	1,968,547	-	-	1,968,547
STOCK BASED COMPENSATION RELATED TO OPTIONS GRANTED TO CONSULTANTS	-	-	177,782	-	-	177,782
DISCOUNT ON CONVERTIBLE NOTE RELATED TO BENEFICIAL CONVERSION FEATURE	-	-	108,000	-	-	108,000
OTHER COMPREHENSIVE LOSS	-	-	-	-	(16)	(16)
IMPUTED INTEREST	-	-	8,437	-	-	8,437
NET LOSS	-	-	-	-	(4,478,917)	(4,478,917)
	3,769,967	45,231	4,946,833	-	(4,478,933)	513,131

BALANCE AS OF AUGUST 31, 2007						
RECEIPTS ON ACCOUNT OF SHARES AND WARRANTS	-	-	6,061	-	-	6,061
SHARES ISSUED FOR CONVERSION OF CONVERTIBLE NOTE	45,844	550	274,450	-	-	275,000
SHARES AND WARRANTS ISSUED FOR CASH - NET OF ISSUANCE EXPENSES	848,288	10,178	5,774,622	-	-	5,784,800
SHARES ISSUED FOR SERVICES	24,419	293	115,817	-	-	116,110
STOCK BASED COMPENSATION RELATED TO OPTIONS GRANTED TO EMPLOYEES AND DIRECTORS	-	-	459,467	-	-	459,467
STOCK BASED COMPENSATION RELATED TO OPTIONS GRANTED TO CONSULTANTS	-	-	203,982	-	-	203,982
IMPUTED INTEREST	-	-	3,780	-	-	3,780
NET LOSS	-	-	-	-	(2,769,271)	(2,769,271)
BALANCE AS OF AUGUST 31, 2008	4,688,518	\$56,252	\$11,785,012	-	\$(7,248,204)	\$4,593,060

*

See note 1a(3).

ORAMED PHARMACEUTICALS INC.
(A development stage company)
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(UNAUDITED)
U.S. dollars

	Common Stock Shares*	\$	Additional paid-in capital	Accumulated Other Comprehensive Income	Deficit accumulated during the development stage	Total stockholders' equity
BALANCE AS OF AUGUST 31, 2008	4,688,518	\$56,252	\$11,785,012	\$ -	\$(7,248,204)	\$ 4,593,060
SHARES ISSUED FOR SERVICES	17,012	204	152,724	-	-	152,928
SHARES TO BE ISSUED FOR SERVICES	-	-	203,699	-	-	203,699
STOCK BASED COMPENSATION RELATED TO OPTIONS GRANTED TO EMPLOYEES AND DIRECTORS	-	-	436,025	-	-	436,025
STOCK BASED COMPENSATION RELATED TO OPTIONS GRANTED TO CONSULTANTS	-	-	117,174	-	-	117,174
IMPUTED INTEREST	-	-	3,780	-	-	3,780
NET LOSS	-	-	-	-	(2,760,474)	(2,760,474)
BALANCE AS OF AUGUST 31, 2009	4,705,530	\$56,456	\$12,698,414	-	\$(10,008,678)	\$ 2,746,192
SHARES ISSUED FOR SERVICES	92,416	1,109	248,741	-	-	249,850
STOCK BASED COMPENSATION RELATED TO OPTIONS GRANTED TO EMPLOYEES AND DIRECTORS	-	-	690,882	-	-	690,882
STOCK BASED COMPENSATION RELATED TO OPTIONS GRANTED TO CONSULTANTS	-	-	116,944	-	-	116,944
IMPUTED INTEREST	-	-	3,780	-	-	3,780
NET LOSS	-	-	-	-	(2,977,376)	(2,977,376)
BALANCE AS OF AUGUST 31, 2010	4,797,946	\$57,565	\$13,758,761	-	\$(12,986,054)	\$ 830,272

SHARES ISSUED FOR SERVICES	60,887	731	226,838	-	-	227,569
SHARES AND WARRANTS ISSUED FOR CASH**	984,209	11,808	3,682,404	-	-	3,694,212
STOCK BASED COMPENSATION RELATED TO OPTIONS GRANTED TO EMPLOYEES AND DIRECTORS	-	-	502,593	-	-	502,593
STOCK BASED COMPENSATION RELATED TO OPTIONS GRANTED TO CONSULTANTS	-	-	26,733	-	-	26,733
IMPUTED INTEREST	-	-	3,782	-	-	3,782
NET LOSS	-	-	-	-	(1,561,245)	(1,561,245)
BALANCE AS OF AUGUST 31, 2011	5,843,042	70,104	18,201,111	-	(14,547,299)	3,723,916
SHARES ISSUED FOR SERVICES	29,084	349	107,511	-	-	107,860
SHARES AND WARRANTS ISSUED FOR CASH, INCLUDING RECLASSIFICATION OF WARRANTS	801,942	9,622	2,984,842	-	-	2,944,464
SHARES AND WARRANTS TO BE ISSUED FOR CASH	-	-	25,093	-	-	25,093
STOCK BASED COMPENSATION RELATED TO OPTIONS GRANTED TO EMPLOYEES AND DIRECTORS	-	-	200,866	-	-	200,866
STOCK BASED COMPENSATION RELATED TO OPTIONS GRANTED TO CONSULTANTS	-	-	70,292	-	-	70,292
NET LOSS	-	-	-	-	(3,344,478)	(3,344,478)
BALANCE AS OF AUGUST 31, 2012	6,674,068	\$80,075	\$21,589,715	-	\$(17,891,777)	\$ 3,778,013

*

See note 1a(3).

**

Including 16,397 shares issued as finders' fee.

ORAMED PHARMACEUTICALS INC.
(A development stage company)
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(UNAUDITED)
U.S. dollars

	Common Stock Shares*	\$	Additional paid-in capital	Accumulated other Comprehensive Income	Deficit accumulated during the development stage	Total stockholders' equity
BALANCE AS OF AUGUST 31, 2012	6,674,068	\$ 80,075	\$ 21,589,715	-	\$(17,891,777)	\$ 3,778,013
SHARES AND WARRANTS ISSUED FOR CASH, NET**	349,396	4,192	1,418,400	-	-	1,422,592
SHARES ISSUED FOR CASH, NET	658,144	7,897	4,230,992	-	-	4,238,889
SHARES ISSUED FOR MARKETABLE SECURITIES	199,172	2,390	626,240	-	-	628,630
SHARES ISSUED FOR SERVICES	33,709	404	244,053	-	-	244,457
EXCHANGE OF WARRANTS	-	-	917,809	-	-	917,809
EXERCISE OF WARRANTS AND OPTIONS	23,383	280	109,295	-	-	109,575
STOCK BASED COMPENSATION RELATED TO OPTIONS GRANTED TO EMPLOYEES AND DIRECTORS	-	-	562,966	-	-	562,966
STOCK BASED COMPENSATION RELATED TO OPTIONS GRANTED TO CONSULTANTS	-	-	156,253	-	-	156,253
NET LOSS	-	-	-	-	(4,231,812)	(4,231,812)
OTHER COMPREHENSIVE INCOME	-	-	-	303,403	-	303,403
BALANCE AS OF AUGUST 31, 2013	7,937,872	\$ 95,238	\$ 29,855,723	\$ 303,403	\$(22,123,589)	\$ 8,130,775
SHARES ISSUED FOR SERVICES ***	10,000	120	64,280	-	-	64,400
STOCK BASED COMPENSATION	-	-	200,858	-	-	200,858

RELATED TO OPTIONS GRANTED TO EMPLOYEES AND DIRECTORS STOCK BASED COMPENSATION RELATED TO OPTIONS GRANTED TO CONSULTANTS	-	-	2,731	-	-	2,731
NET LOSS	-	-	-	-	(1,124,320)	(1,124,320)
OTHER COMPREHENSIVE INCOME	-	-	-	30,770	-	30,770
BALANCE AS OF NOVEMBER 30, 2013	7,947,872	\$95,358	\$30,123,592	334,173	\$(23,247,909)	\$7,305,214

* See note 1a(3).

** Including 13,872 shares issued as finders' fee.

*** See note 5.

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

ORAMED PHARMACEUTICALS INC.
(A development stage company)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
U.S. dollars

	Three months ended		Period from April 12, 2002 (inception date) through November 30, 2013
	November 30, 2013	2012	2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$(1,124,320)	\$(958,753)	\$(23,247,909)
Adjustments required to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	1,871	2,271	128,094
Amortization of debt discount	-	-	108,000
Exchange differences	(21,832)	18,782	28,384
Stock based compensation	203,589	218,208	5,894,095
Common Stock issued for services	64,400	-	1,464,813
Gain on sale of investment	(18,454)	-	(1,102,161)
Impairment of investment	-	-	434,876
Impairment of available for sale security	-	-	381,666
Imputed interest	-	-	23,559
Exchange of warrants	-	296,982	296,982
Changes in fair value of warrant liabilities	-	(44,699)	98,005
Changes in operating assets and liabilities:			
Prepaid expenses and other current assets	(24,969)	(20,962)	(188,222)
Restricted cash	-	-	(16,000)
Accounts payable and accrued expenses	170,333	(309,870)	621,274
Liability of employee rights upon retirement	674	5,215	21,905
Provision for uncertain tax position	-	-	23,210
Total net cash used in operating activities	(748,708)	(792,826)	(15,029,429)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(4,895)	-	(136,886)
Purchase of short-term deposits	(4,300,000)	-	(16,050,363)
Proceeds from sale of Short term deposits	4,100,000	454,381	10,582,011
Proceeds from sale of investment and marketable securities	43,208	-	719,879
Funds in respect of employee rights upon retirement	(500)	(154)	(9,485)
Lease deposits, net	-	-	(2,615)
Total net cash provided (used in) investing activities	(162,187)	454,227	(4,897,459)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from sales of common stock and warrants - net of issuance expenses	-	1,458,436	20,859,553
Proceeds from exercise of warrants and options	-	-	109,575
Receipts on account of shares issuances	-	-	6,061

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Proceeds from convertible notes	-	-	275,000
Proceeds from short term note payable	-	-	120,000
Payments of short term note payable	-	-	(120,000)
Shareholder advances	-	-	66,243
Net cash provided by financing activities	-	1,458,436	21,316,432
EFFECT OF EXCHANGE RATE CHANGES ON CASH	9,420	(19,502)	(18,791)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(901,475)	1,100,335	\$1,370,753
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,272,228	4,430,740	-
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$1,370,753	\$5,531,075	\$1,370,753
Non cash investing and financing activities:			
Shares and warrants issued as offering costs	-	-	\$77,779
Contribution to paid in capital	-	-	\$18,991
Discount on convertible note related to beneficial conversion feature	-	-	\$108,000
Exchange of warrants	-	\$917,809	\$917,809
Shares issued for marketable securities	-	\$628,630	\$628,630

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

ORAMED PHARMACEUTICALS Inc.
(A development stage company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES:

a. General:

1) Incorporation and operations

Oramed Pharmaceuticals Inc. (the "Company") was incorporated on April 12, 2002, under the laws of the State of Nevada. From incorporation until March 3, 2006, the Company was an exploration stage company engaged in the acquisition and exploration of mineral properties. On February 17, 2006, the Company entered into an agreement with Hadasit Medical Services and Development Ltd ("Hadasit") to acquire the provisional patent related to orally ingestible insulin capsule to be used for the treatment of individuals with diabetes. In subsequent periods, the Company entered into additional development agreements with Hadasit, the most recent of which was signed on September 11, 2011, see also note 2a.

On March 11, 2011, the Company was reincorporated from the State of Nevada to the State of Delaware.

On May 14, 2007, the Company incorporated a wholly-owned subsidiary in Israel, Oramed Ltd., which is engaged in research and development. Unless the context indicates otherwise, the term "Group" refers to Oramed Pharmaceuticals Inc. and its Israeli subsidiary, Oramed Ltd. (the "Subsidiary"), (together with the Company, "the Group").

In March 2011, the Subsidiary sold shares of its investee company, Entera Bio Ltd ("Entera") to D.N.A Biomedical Solutions Ltd ("D.N.A"), other than a 3% interest, which is accounted for as a cost method investment (amounting to \$1,027 as of the end of the period). In consideration for the shares sold to D.N.A, the Company received a promissory note issued by D.N.A in the principal amount of \$450,000, with an annual interest rate of 0.45%, that was paid in full in November 2011, and 8,404,667 ordinary shares of D.N.A, see also note 4.

As part of this agreement, the Subsidiary entered into a patent transfer agreement according to which, the Subsidiary assigned to Entera all of its right, title and interest in and to the patent application that it has licensed to Entera since August 2010. Under this agreement, the Subsidiary is entitled to receive from Entera royalties of 3% of Entera's net revenues (as defined in the agreement) and a license back of that patent application for use in respect of diabetes and influenza. As of November 30, 2013, Entera had not yet realized any revenues and had not paid any royalties to the Subsidiary.

ORAMED PHARMACEUTICALS Inc.
(A development stage company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

2) Development and liquidity risks

The Company has been in the development stage since its formation and has not yet generated any revenues from its operations.

The Group is engaged in research and development in the biotechnology field and is considered a development stage company in accordance with the ASC Topic 915 "Development Stage Entities" due to the fact that it has not generated any revenues from its operations.

Successful completion of the Company's development programs and its transition to normal operations is dependent upon obtaining necessary regulatory approvals from the FDA prior to selling its products within the United States, and foreign regulatory approvals must be obtained to sell its products internationally. There can be no assurance that the Company will receive regulatory approval of any of its product candidates, and a substantial amount of time may pass before the Company achieves a level of revenues adequate to support its operations, if at all. The Company also expects to incur substantial expenditures in connection with the regulatory approval process for each of its product candidates during their respective developmental periods. Obtaining marketing approval will be directly dependent on the Company's ability to implement the necessary regulatory steps required to obtain marketing approval in the United States and in other countries. The Company cannot predict the outcome of these activities.

Based on its current cash resources and commitments as of November 30, 2013, the Company believes it will be able to maintain its current planned development activities and the corresponding level of expenditures for at least the next 12 months and beyond. If there are unexpected increases in general and administrative expenses or research and development expenses, the Company may need to seek additional financing during the next 12 months. See also note 6a, with respect to the Company's offering in December 2013.

3) Reverse stock split

On January 10, 2013, the Company's Board of Directors approved a reverse stock split at a ratio of one-for-twelve, effective January 22, 2013, which decreased the number of common shares issued and outstanding as of January 23, 2013, from approximately 86.5 million shares to approximately 7.2 million shares and the number of authorized common shares from 200 million shares to approximately 16.7 million shares. All share and per share amounts included in the consolidated financial statements have been adjusted retroactively to reflect the effects of the reverse stock split.

ORAMED PHARMACEUTICALS Inc.
(A development stage company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

b. Newly issued and recently adopted Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (“ASU 2013-02”). This update requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, ASU 2013-02 requires presentation, either on the face of the income statement or in the notes, of significant amounts reclassified out of accumulated other comprehensive income by respective line items of net income, but only if the amounts reclassified are required to be reclassified in their entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional details about these amounts. The amendments in ASU 2013-02 will be effective prospectively for annual reporting periods beginning after December 15, 2012, and interim periods within those annual periods. The Company adopted ASU 2013-02 in the first quarter of fiscal year 2014. The adoption of ASU 2013-02 does not have any material effect on the consolidated financial statement presentation.

c. Condensed Consolidated Financial Statements Preparation

The condensed consolidated financial statements included herein have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and on the same basis as the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended August 31, 2013 (the “2013 Form 10-K”). These condensed consolidated financial statements reflect all adjustments that are of a normal recurring nature and that are considered necessary for a fair statement of the results of the periods presented. Certain information and disclosures normally included in annual consolidated financial statements have been omitted in this interim period report pursuant to the rules and regulations of the SEC. Because the condensed consolidated interim financial statements do not include all of the information and disclosures required by U.S. GAAP for annual financial statements, they should be read in conjunction with the audited consolidated financial statements and notes included in the 2013 Form 10-K. The results for interim periods are not necessarily indicative of a full fiscal year’s results.

ORAMED PHARMACEUTICALS Inc.
(A development stage company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 2 - COMMITMENTS:

- a. On September 11, 2011, the Subsidiary entered into an agreement with Hadasit, Dr. Miriam Kidron and Dr. Daniel Schurr (the "Agreement"), to retain consulting and clinical trial services. According to the Agreement, Hadasit will be entitled to a consideration of \$200,000 to be paid by the Company in accordance with the actual progress of the studies, \$75,000 of which were paid and recognized through November 30, 2013. See also note 1a(1).
- b. On July 5, 2010, the Subsidiary of the Company entered into a Manufacturing Supply Agreement ("MSA") with Sanofi-Aventis Deutschland GMBH ("Sanofi"). According to the MSA, Sanofi will supply the subsidiary with specified quantities of recombinant human insulin to be used for clinical trials in the United States.
- c. On February 15, 2011, the Subsidiary entered into a consulting agreement with a third party (the "Consultant") for a period of five years, pursuant to which the Consultant will provide consultation on scientific and clinical matters. The Consultant is entitled to a fixed monthly fee of \$8,000, royalties of 8% of the net royalties actually received by the Subsidiary in respect of the patent that was sold to Entera on March 31, 2011 (see note 1a(1)) and an option to purchase up to 20,834 shares of the Company at an exercise price of \$6.00 per share. The option vests in five annual installments commencing February 16, 2012 and expires on February 16, 2021. The initial fair value of the option on the date of grant was \$62,185, using the Black Scholes option-pricing model and was based on the following assumptions: dividend yield of 0% for all years; expected volatility of 78.65%; risk-free interest rates of 3.62%; and the remaining expected term of 10 years. The fair value of the option as of November 30, 2013 was \$118,483, using the following assumptions: dividend yield of 0% and expected term of 7.21 years; expected volatility of 75.78%; and risk-free interest rate of 2.10%. The fair value of the option granted is remeasured at each balance sheet reporting date and is recognized over the related service period using the straight-line method.
- d. On March 18, 2012, the Subsidiary entered into a lease agreement for its facilities in Israel. The lease agreement was for a period of 57 months commencing January 1, 2012.

On April 28, 2013, the Subsidiary entered into a new lease agreement for its office facilities in Israel, which replaced the lease agreement from 2012. The new lease agreement is for a period of 36 months commencing November 4, 2013. The annual lease payment will be NIS 89,052 from 2014-2016, and will be linked to the increase in the Israeli consumer price index (as of November 30, 2013, the future annual lease payments under the new agreement will be \$25,227, based on the exchange rate as of November 30, 2013).

The lease expenses for the three month period ended November 30, 2013 were approximately \$3,920.

As security for its obligation under this lease agreement the Company provided a bank guarantee in an amount equal to three monthly lease payments.

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NOTE 2 - COMMITMENTS (continued):

- e. On April 15, 2013, the Company entered into a consulting agreement with a third party advisor for a period of twelve months, pursuant to which such advisor will provide investor relations services and is entitled to receive a monthly cash fee and 15,000 shares of the Company issued in three equal installments, on each of May 1, 2013, August 1, 2013 and November 15, 2013. On July 11 and November 4, 2013 the Company issued to such advisor 5,000 and 10,000 shares, respectively. The fair value of the shares at these dates was \$34,900 and 64,400, respectively. See also note 5.
- f. On April 29, 2013, the Subsidiary entered into a Clinical Research Organization Service Agreement with a third party, to retain it as a CRO, for its Phase 2a clinical trial for an oral insulin capsule. As consideration for its services, the subsidiary will pay the CRO a total amount of approximately \$332,702 that will be paid during the term of the engagement and based on achievement of certain milestones, \$196,304 of which were paid and \$282,807 were recognized through November 30, 2013.
- g. On July 23, 2013, the Subsidiary entered into a Master Service Agreement with a vendor for the process development and production of one of its oral capsule ingredients in the amount of \$102,280, of which \$30,684 were paid and recognized through November 30, 2013.

h. Grants from Bio-Jerusalem

The Subsidiary is committed to pay royalties to the Bio-Jerusalem fund on proceeds from future sales at a rate of 4% and up to 100% of the amount of the grant received by the Company (Israeli CPI linked) at the total amount of \$65,053. As of November 30, 2013, the Subsidiary had not yet realized any revenues and did not incur any royalty liability.