

**ORAMED PHARMACEUTICALS INC.**

**(ORMP - OTC:BB)**

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Recent Price: **\$1.0000**  
Target Price: **\$2.0500**

**SPECULATIVE POSITIVE RATING**

**Main Headquarters**

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***A Revolutionary Oral Insulin Delivery Method for Diabetics***

***Company Overview***

Oramed Pharmaceuticals Inc. (OTC:BB) is a biotechnology company that is engaged in research and development of methods to administer insulin orally. The company focuses on developing insulin pills and capsules that can be used to treat Type I & II Diabetes by taking insulin orally, instead of by injection or through spray. A form of insulin that is effective when taken orally in pill form is not currently available on the market.

- It is estimated that the **Diabetes drug market** (insulin products and anti-diabetic agents) will represent about **\$20 billion by 2007**, while the market for **insulin delivery and monitoring devices** will be worth **some \$10 billion**.
- According to analysts at Decision Resources the **total Diabetes market (oral and insulin) totaled about \$11 billion in 2003** in the seven major pharmaceutical markets (United States, Japan, Germany, France, United Kingdom, Italy and Spain). They expect the **total Diabetes market to reach \$14 billion by 2006** and they forecast that the type 2 Diabetes market will enjoy sustained growth.
- A report by San Antonio-based **Frost & Sullivan Inc.** estimates that the **US insulin delivery market generated revenue of about \$1.26 billion in 2003** and they expect this figure to soar to nearly **\$3.1 billion by 2010**.
- The company intends to conduct **clinical trials** of its potential oral insulin product over **the next 6 months**.
- Through R&D effort ORMP seeks to develop a pill that will not break down in the stomach or intestines and will be **effective in delivering insulin to the bloodstream** for the treatment of Diabetes. The pill would be comprised of compounds and enzymes that would protect the insulin from being broken down until it is absorbed into the bloodstream, thereby providing an alternate method to injection or inhalation for the administration of insulin. The enzymes and compounds that are added to the insulin to make the pill must not change the composition of the insulin once it is absorbed into the bloodstream and the pill must be safe to ingest.
- The **Federal Balanced Budget Act of 1998** in Congress declared **Diabetes an "epidemic disease"**, broadening the scope of Medicare reimbursement for products distributed directly to consumers. It has given patents access to products as **blood glucose meters, test strips, insulin pumps and lancets** from their local pharmacies **which also bode well for future orally administered diabetic treatments**.
- Oramed Pharmaceuticals **intends to make a regular U.S. patent application**, for its current intellectual rights obtained through the provisional patent application acquired from Hadasit, **before September 6, 2006**.
- The market for diabetic therapies is expected to experience significant growth over the next decade, driven by **new insulin administration technologies allowing and attracting more type 2 users** to start treatments earlier on the progression of the disease. Oramed's management believes that if **its research plan is successful, it will be able to capitalize** on this untapped market opportunity.
- **A major springboard for unprecedented growth exists for the company that is able to develop an effective insulin pill or capsule that can be used by diabetics, that is not currently available.** Shares offer shareholders access to the **intellectual property and expertise of oral insulin drug research specialists** looking to establish a **commercial drug with a competitive first-to-market position** that can alleviate the **discomfort and inconvenience of diabetic patients**. We are optimistic that the company can **complete a critical funding transaction in the near term** that will allow them to conduct the clinical trails and **R&D work needed to pursue this new oral insulin drug**. See INVESTMENT THESIS & RECOMMENDATION for more in-depth discussion (Page 10-11)

*See Appendix A-I for Analyst Certification and Important Disclosures*

Oramed Pharmaceuticals Incorporated. (all figures in Millions)		
52 Week Hi/Lo Range	0.30/1.10	
Fiscal Year End	31-Aug	
Shares Outstanding (5/15/2006)	41.456	
Float (approximately)	NA	
Share price (05/25/2006)	0.995	
Market Capitalization	41.25	
Average Volume (3 months)	NA	
Insider Ownership	NA	
Institutional Ownership	NA	
Enterprise Value	41.30	
Total Debt (02-28-06)	0.047	
Total Cash (02-28-06)	0.000	
	<b>8/30/2006</b>	<b>8/30/2007</b>
	(1st 6 months)	
	<b>FY2006 A</b>	<b>FY2007 E</b>
Earnings Per Share (EPS)	0.00	-0.03
Book Value (\$/share)		
	(1st 6 months)	
	<b>FY2006 A</b>	<b>FY2007 E</b>
Total Revenue	0.000	0.000
Cost of Sales	0.000	0.000
Gross Profit/Loss	0.000	0.000
Operating expenditures	0.007	1.345
Net Loss /Profit	-0.007	-1.345
Tax Expense	0.000	0.000
Net Income	-0.007	-1.345
NA = Not applicable/Not Available. A = Actual Reported figures E = Estimates		
Balance Sheet & Financial Statement Extracts (02-28-06)		
Current Assets	0.0000	
Current Liabilities	0.0514	
Total Assets	0.0000	
Total Shareholders deficit	0.0514	
Tax Loss Carryforwards		
Capital Structure (as at 02-28-06)		
Authorized Common Stock	200 000 000	

## COMPANY

**Oramed Pharmaceuticals, Inc.** (ORMP - OTC:BB) is **pharmaceutical research and development company** and was incorporated in Nevada on April 12, 2002. From this incorporation date until March 3, 2006 the company conducted its business as an exploration stage company engaged in business of acquiring and exploration of mineral properties located in British Columbia in Canada. The company subsequently abandoned these activities after it was unsuccessful to implement its original business plan. The former company, titled **Integrated Security Technologies** changed its name to **Oramed Pharmaceuticals** on April 10, 2006.

During March 2006, Oramed purchased **U.S. patent application 60/718716**, including related intellectual property, from **Hadasit Medical Services and Development Ltd.** The **patent application relates to technology to allow the administration of insulin orally.** The agreement also provides that Hadasit will provide consulting services to Oramed so that clinical trials, including a full report, may be conducted and Oramed agreed to provide \$200,000 to Hadasit according to a predetermined payment schedule to conduct the trials. Oramed agreed to pay the principal investigator of the trials 3,361,360 warrants with an exercise price of \$0.001 if he continues to work with Oramed following the completion of the trials. The patent application No. 60/718716 is a provisional application and we plan to make a regular U.S. patent application before the provisional application expires on September 6, 2006. The company agreed to secure the future development of this oral insulin product and to raise at least \$1 million in a private placement of its common stock.

**The ability to correctly self-administer doses of insulin is crucial to the long term health of a large number of people with Diabetes.** For many years the needle and syringe was the only method available to diabetic patients and today it is still the main method to deliver insulin into the body. **Through R&D effort ORMP seeks to develop a pill that will not break down** in the stomach or intestines and will be **effective in delivering insulin** to the bloodstream for the treatment of Diabetes. The pill would be comprised of compounds and enzymes that would protect the insulin from being broken down until it is absorbed into the bloodstream, thereby providing an alternate method to injection or inhalation for the administration of insulin. The enzymes and compounds that are added to the insulin to make the pill must not change the composition of the insulin once it is absorbed into the bloodstream and the pill must be safe to ingest. Oramed believes that oral delivery is by far the most convenient and patient-compliant form of insulin delivery. The company considers that insulin capsules or tablets would be preferable to injection treatment due to the following reasons:

- The treatment is more physiological when given through the digestive system.
- Today more than 40% of type 2 diabetics need insulin to better control and cope with their disease but many of them do not take insulin due to fear of needles, among other reasons.
- On a all-inclusive basis the treatment of Diabetes with this new product is expected to be similar in price when compared to current cost of purchasing insulin for injection, syringes and disposable needles.
- Patients generally prefer taking capsules rather than injections.

Currently ORMP has two permanent employees, which include the Chief Executive Officer, Nadav Kidron and the Chief Financial Officer, George Drazenovic. Dr. Miriam Kidron, which serves as a director, will provide consulting services during the clinical trials through its agreement with Hadasit upon our request. **Dr. Kidron is a pharmacist with a PhD in biochemistry and is the inventor of the method and composition of insulin that can be administered orally**, which was covered by the provisional patent application No. 60/718716. Moreover, she has been an investigator in the Diabetes Unit at Hadassah University Hospital in Jerusalem, **Israel for the past 16 years.** Depending on the results of those trials and other factors relating to the operations of the company, the company may hire additional employees in future, but no major changes in the current staff makeup is anticipated over the next 12 months.

## DIABETES – A MAIN THREAT TO HUMAN HEALTH



**Diabetes Mellitus is one of the main threats to human health in the 21<sup>st</sup> century** and is a epidemic taking place in both the first and developing world. The World Health Organization (WHO) projects that by 2010 the global figure of people with Diabetes is set to rise to 220 million and to **300 million by 2025 and 370 million will be affected by 2030.** Actual figures reveal a startling rise from 30 million in 1985 to 200 million in 2005. In the US **type 2 Diabetes** is now responsible for more **than \$132 billion in annual direct and indirect medical costs** (American Diabetes Association estimate). The underlying factors behind this increase can be attributed to the aging population, consumption of the “wrong” kinds of food, unhealthy lifestyle and obesity. One of the main complications of Diabetes includes the **risk of developing cardiovascular disease** (doubled in diabetics) and between 70-80% of diabetics die from cardiovascular disease.

**Diabetes is a group of diseases marked by high levels of blood glucose resulting from the defects in insulin production, insulin action, or both.** It can lead to serious complications and even early death. Insulin is a hormone produced by the pancreas which controls the metabolism of starches and sugars. It helps to move glucose from the bloodstream into cells of the body. When the body can't produce enough insulin or fails to properly respond to it, the condition is known as Diabetes.

Diabetes Mellitus is a serious chronic condition resulting from the body's failure to control the concentration of sugar in the blood. As mentioned above, Diabetes can lead to many other complications that can cause premature death.

Types of Diabetes are classified in 2 broad groups:

### **Insulin Dependent Diabetes Mellitus (IDDM) / Type 1.**

This form of Diabetes often strikes young adults and children but can develop at any age. Of all diagnosed cases of Diabetes, Type 1 accounts for 5% to 10% of total cases.

This type of Diabetes develops when the **body's immune system destroys pancreatic beta cells**, the only cells in the body that can make the hormone insulin that regulates the blood glucose. To survive, people with Type 1 Diabetes must have insulin delivered by injection or pump. Risk factors for this type may be autoimmune, genetic, or environmental and there is also no way of prevention of type 1 Diabetes.

### **Non-Insulin Dependent Diabetes Mellitus (NIDDM) / Type 2.**

This form of Diabetes accounts for about **90% to 95% of all diagnosed cases** of Diabetes. It **usually begins as an insulin resistance, a disorder in which the cells do not use insulin properly**. As the need for insulin rises, the pancreas gradually loses its ability to produce it.

This form of Diabetes is associated with race/ethnicity, older age, genetic factors such as family history of Diabetes, impaired glucose metabolism, physical inactivity, obesity or history of gestational Diabetes. Hispanic/Latino Americans, African Americans, American Indians, Native Hawaiians, other Pacific Islanders and some Asian Americans are at particularly high risk for type 2 Diabetes and its complications. Clinically-based reports and regional studies suggest that **Type 2 Diabetes in children and adolescents, although still rare is being diagnosed more frequently**, particularly in American Indians, African Americans and Hispanic or Latino Americans.

## **INDUSTRY & COMPETITION**

There has been an explosion in the number of patients and it is estimated that the Diabetes drug market (insulin products and anti-diabetic agents) will represent about \$20 billion by 2007, while the market for insulin delivery and monitoring devices will be worth some \$10 billion. **In 2005, it was estimated that 7.0% of the US population, or 20.8 million people suffered from either type of Diabetes and of this group only 70% had been diagnosed.** According to the Behavioral Risk Factor Surveillance System of the Centers of Disease, Control and Prevention, the prevalence of diagnosed Diabetes in the US measured as a percentage of the adult population in each of the states increased significantly from 1994 to 2002 with the vast majority of states registering 6+%. A new Pharmacor study called "Type 2 Diabetes" also finds that the prevalence **of Type 2 Diabetes will continue to grow because of an aging general population.**

The Diabetes industry currently consists of two main segments: **drug manufacturers** that provide insulin products and anti-diabetic agents and **medical devices producers** (glucose monitors and insulin pumps). In 2002, the drugs segment represented almost two-thirds of the dollar value of the sales of the industry. The Diabetes drug industry is highly concentrated with the **6 largest players** namely **Eli Lilly, Takeda, Novo Nordisk, GlaxoSmithKline, Sanofi-Aventis and Bristol-Myers-Squibb** making up 75% of all sales. On the devices side of the industry, the global leaders are **Roche, Johnson & Johnson (J&J), Bayer and Abbott Labs** as far as glucose monitoring devices are concerned. **Medtronic** is the market leader with regard to insulin pumps.

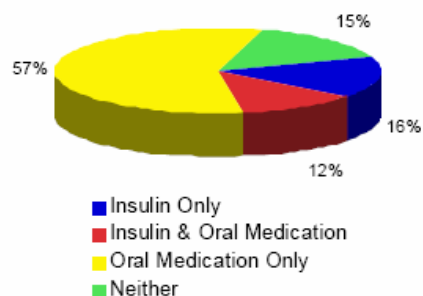
According to analysts at Decision Resources the **total Diabetes market (oral and insulin) totled about \$11 billion in 2003 in the 7 major pharmaceutical markets (US, Japan, Germany, France, UK, Italy, Spain)**. In 2003, sales of pharmaceutical products for treating type 2 Diabetes totaled more than \$9.5 billion in these 7 major markets. Sales of type 2 Diabetes therapies are expected to exceed \$15.3 billion in 2013. They expect the **total Diabetes market to reach \$14 billion by 2006** and they expect the type 2 Diabetes market to enjoy sustained growth. A report by San Antonio-based **Frost & Sullivan Inc.** estimates that the **US insulin delivery market generated revenue of about \$1.26 billion in 2003** and they expect this figure to soar to nearly **\$3.1 billion by 2010**.

The market for diabetic therapies is expected to experience significant growth over the next decade, driven by new insulin administration technologies allowing and attracting **more type 2 users to start treatments earlier on the progression of the disease**. Oramed's management believes that if its research plan is successful, it will be able to capitalize on this untapped market opportunity. According to Decision Resources' analysts the patient population is expected to experience continued growth and the need for disease-modifying agents point to tremendous commercial opportunity in the type 2 Diabetes market.

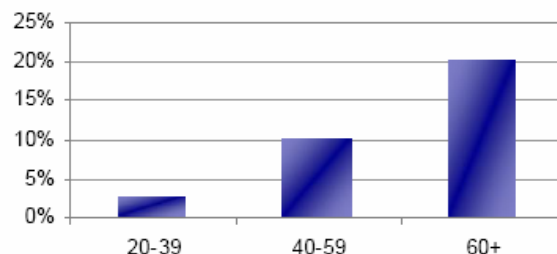
## Estimated Prevalence of Diabetes and Treatments in the USA

2001-2003 / 2005

Treatment with Insulin or Oral Medications among Adults with Diagnosed Diabetes



Prevalence of Diabetes among Adults By Age Group



Sources: Left Chart 2000-2003 National Health Interview Survey;  
Right Chart 1999-2002 National Health and Nutrition Examination

Medicare is a federally funded program that provides health insurance coverage for qualified persons, of age 65 or older, and for some disabled persons. The medication(s) that ORMP seeks to ultimately provide is expected to be reimbursable by Medicare, and will be subject to extensive regulation. The company is targeting Type I&II Diabetes which both have a **unique status within the Medicare reimbursement regime** and because of the **strong link to high blood pressure, heart disease and other chronic conditions that will represent additional growth opportunities for ORMP if they are able to progress its R&D effort into a insulin based drug that is FDA approved.**

The **Federal Balanced Budget Act of 1998** in Congress declared **Diabetes an "epidemic disease"**, broadening the scope of Medicare reimbursement for products distributed directly to consumers. It has given patents access to products as **blood glucose meters, test strips, insulin pumps and lancets** from their local pharmacies. Current Medicare reimbursement guidelines stipulate, among other things, that quarterly orders of Diabetes supplies to existing patients be verified with the patients before shipment, and that all doctors' orders for supplies be re-validated, every 12 months, through the receipt of new doctors' orders. This company is positioned to derive incremental sales benefit from product reimbursement directly from Medicare and private health insurance carriers. Medicare reimburses at 80% of the government-determined fee schedule amounts for reimbursable supplies, and then invoice for the remaining 20% to either third-party payers or directly to patients.

The following companies are considered **direct competitors** of ORMP:

- **BioSante (AMEX: BPA)** has successfully completed pre-clinical trials of CAP formulations for long-acting insulin injections, inhaled insulin and oral insulin, among other proteins.
- Oral insulin products that are known to be in active R&D programs are those of **BMS, Nordisk** and **Diabetology**, which are in Phase 1 trials. **Nobex**, an American biotech company currently has an oral insulin agent in Phase II trials.
- **Coremed, Inc.** is a privately funded biotechnology company founded in 1994. The company developed an inhalable form of insulin based on a proprietary new platform for drug delivery. The first product Alveair has near 100% bio-availability, had no respiratory side-effects during preliminary human trials, and oral delivery rendering injections unnecessary and this product is currently starting Phase 1 clinical trials.
- **Emisphere Technologies, Inc. (NASDAQ NM: EMIS)** is a biopharmaceutical company pioneering the oral delivery of otherwise injectable drugs. The company has successfully demonstrated in clinical work that insulin absorption occurs from the gastrointestinal tract, and also that blood glucose levels can be substantially reduced following administration of an oral formulation containing a delivery agent that combines with insulin to produce the desired effect. This product is also in Phase 1 trails.
- **Biocon**, which is India's leading biotechnology enterprise, plans to conduct clinical trials for oral insulin after they are able to obtain FDA clearance in the United States. The planned trails will take 3 to 4 years to assess the impact and study the results.

**A major springboard for unprecedented growth exists** for the company that is able to develop an **effective insulin pill or capsule that can be used by diabetics**, that is not currently available on the market.

*See Appendix A-1 for Analyst Certification and Important Disclosures.*

## CURRENT INSULIN DELIVERY METHODS

**Table : Insulin Delivery Methods Compared**  
Pills and Tablets offer the most convenient solution

Type	Method	Advantages	Disadvantages
♦ Needle and syringe	Injection	Inexpensive; insulins can be mixed	Less convenient than some other methods (may be difficult to see and maneuver for some people). Needles make some patients uncomfortable
♦ Insulin pumps	Automatic release via an attached battery operated pump	Insulin delivered easily and automatically; patients do not inject themselves	Expensive. Requires frequent glucose monitoring and ability to program the pump.
♦ Insulin pens	Injection	Convenient and discreet storage and delivery	Not available for all insulin types. May waste some insulin.
♦ Insulin jet injectors	High-pressure air	No needles involved	Expensive. Some patients find high-pressure air painful. In some cases, the medication won't penetrate the skin
♦ Pills and Tablets	Oral Ingestion	Easy, convenient and discreet delivery method	Still requires further research & development

Source: Oramed Pharmaceuticals, Inc

**Current technology is such that insulin must be injected and is not taken orally.**

All people with Type 1 Diabetes and some with type 2 Diabetes require daily insulin injections. Even today the combination of needle and syringe to inject insulin under the skin is still the main method of insulin delivery. There is a great need for easier methods of insulin administration that can advance the treatment of Diabetes. Alternatives to the needle and syringe that have emerged in recent years are:

- **Insulin Pumps**

A lightweight device holding insulin that flows through a needle inserted into a patient's abdomen. The patient generally wears the device day and night and occasionally removes the pump for activities such as showering or athletics. The device continuously delivers basal doses of insulin in order to maintain the proper glucose/blood sugar level. The pump allows the patient to release bolus doses of insulin before meals or when the glucose level becomes too high.

- **Insulin Pens**

This is a device that resembles a pen and has a cartridge of insulin attached. The patient can turn a dial to set the chosen dosage amount and press a plunger to deliver the medicine in the upper arm, thighs, buttocks or abdomen. Patients using insulin pens need to take special care to ensure that they properly mix the insulin before injecting the medication.

- **Insulin Jet Injectors**

Insulin Jet Injectors are a high-pressure mechanism that sends a fine spray of insulin through the skin. Despite the fact that no needles are involved, some patients find the high-pressure air to be painful. Drawbacks of this method is the fact that these injectors are expensive and the amount of insulin delivered into the body is hard to control.

In addition to the direct competing technologies mentioned above, Oramed's products will also face indirect competition from the main technologies listed below:

*See Appendix A-I for Analyst Certification and Important Disclosures.*

- **Insulin Inhalers**

In January 2006, the FDA approved an **inhaled insulin product** called **Exubera (Pfizer Inc.) for adults with type 1 or type 2 Diabetes**. This product however is not a substitute for all of the insulin shots that many patients need and has the disadvantage that it is priced beyond the reach of many subscribers if some health plans. Many patients, including almost all of Type 1 diabetics, would still need to get long-acting insulin by injection. Several other companies (Eli Lilly & Co., Alkermes Inc., Mankind Corp. and Novo Nordisk) are also developing inhaled insulin products.

- **Oral Insulin Sprays, Drops, Liquids.**

These are also administered in the mouth and then absorbed through the tongue, throat and lining of the mouth. This therapy is also expensive since it generally requires large amounts, similar to inhaled insulin powder. Scientists are also investigating other oral methods, including liquid insulin that is swished in the mouth. Another liquid form, oral drops has undergone preclinical trials and may progress to clinical trials in India and Europe.

- **Insulin Patch**

A continuous, low dose of insulin is delivered through these patches, which are placed on the skin, like nicotine patches used by those trying to quit smoking cigarettes. The biggest drawback with this method is that unlike nicotine, which is a small molecule, insulin has a much larger molecule that does not penetrate the skin easily.

- **Implantable Insulin Pump**

This is a device that is surgically implanted in the patient (usually on the left side of the abdomen). Implantable insulin pumps release a continuous basal dose of insulin and can be controlled by the patient via remote-control to regulate the bolus insulin release. These insulin pumps are not yet available in the United States to the general public.

- **Artificial Pancreas**

This device carries the hope that it will one day free diabetics from having to adjust their insulin medication by themselves. This implantable experimental device combines an insulin pump and a glucose sensor.



## PLAN OF OPERATIONS AND CLINICAL TRIALS

The primary objectives over the 12 months ending February 28, 2007, will be to conduct further research and development on the technology covered by the provisional patent application No. 60/718716 which Oramed acquired from Hadasit and to begin Phase I of the clinical trials for its drug product candidate to administer insulin orally. Through developing this method, the company hopes to produce pills that will enable people with Diabetes to take insulin orally instead of by injection or through a spray. A form of insulin that is effective when taken orally in pill form is not currently available on the market. Oramed believes that insulin in pill form would decrease the discomfort and inconvenience currently experienced by people with Diabetes.

ORMP intends to make a regular U.S. patent application before September 6, 2006 when the provisional application expires. The company expects that the clinical trials of its potential oral insulin product will last 6 months. To date, it has not begun its planned trials of the product and has not generated sales of any products. Oramed plans to conduct clinical trials of its insulin products very shortly and then commission a clinical trial report. **Successful results of this trail phase** would grant the company the **chance to either continue with Phase II** itself, or **find a pharmaceutical company willing to continue its work** all the way through **FDA approvals and manufacturing**.

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## Research Plan – Phase I

Oramed's team is ready to **start Phase I of the clinical trails at the Hadassah Medical organization in Israel**. The company will use a well-known undisclosed pharmaceutical company in order to produce the oral insulin. During this phase the company will require 8-10 healthy volunteers who will participate in 6 to 8 arms. In each arm there will be a different combination of the oral insulin. The idea is to **test which one of the combinations is best, in order to proceed to Phase II**. ORMP will test the effect of the oral insulin in the reduction in blood glucose, as well as C-peptide and the elevation of insulin in the circulation.

The first phase of the clinical trails will involve the 4 steps listed below:

- Application to the **Institutional Review Board (IRB)**. If the application is approved, it will take **2 months** until the commencement of the trail. The IRB is an independent panel of researchers and the community advocates that reviews all parts of a clinical trail and ensures that the study is ethical and poses no undue risks. The IRB must approve the clinical trails protocol, the informed consent document in order for the trail to start.
- In event of the IRB taking action to first forward the application to the Ministry of Health, the company estimates that it will take from **2 to as much as 4 additional months** for the trail to start.
- Once the approval is received the trail begins and it would **last for 3 months**. Once the trail is completed the company commissions a final report.
- When the report is ready and released, Oramed will know the **outcome of the clinical trails and given the success of the trail and efficacy of the treatments it will then decide** whether or not to proceed to **Phase II**.

Clinical Trails are the way in which a new drug is tested in order for it to reach the market. The doctors and researchers running a clinical trail develop a written plan detailing exactly how the trail will be conducted. This plan also called a protocol explains how the trail will be run, the information that will be gathered and what new things the researchers hope to learn. Clinical Trails are traditionally divided into different phases, each of which is designed to gather specific information about the drug or treatment being studied and the basic features of each are:

**PHASE I (Pre-FDA Approval)** – The first studies on humans of new drugs or therapies. **They typically involve small numbers of healthy volunteers** and are **designed to determine the best dose of the drug** and to **check for any side effects**. Because Phase I trails use treatments that have never been tested on humans, they **may involve significant risks**.

**PHASE II (Pre-FDA Approval)** – If a treatment is shown to be safe and well tolerated it moves into **Phase II**. These trails involve many more volunteers and are designed to see how well the treatment works, **usually in a small group** of patients.

**Phase III (Pre FDA Approval)** – If Phase 2 tests prove effective, it moves into Phase 3 trails. **Hundreds or even many thousands of patients may participate** in this phase of testing and aimed at further testing how well the treatment works. Also these trails **compare the new drug/treatment to an already existing, standard treatment** in a randomized fashion. One group then receives the standard treatment while the new treatment is given to the other group called the control group. Statistics are then gathered and analyzed and often formally documented by a statistician that will carry a recommendation that will be considered by the FDA panel that proceeds at the hearing when a formal decision is taken to grant approval to a drug that has undergone Phase III tests or not.

**PHASE IV (FDA Approved)** – These trails are conducted after a drug has received FDA approval and is already on the market. Phase 4 trails typically involve a very large number of participants and are designed to evaluate new uses of existing therapies or to **detect side-effects that were not apparent during Phase 3 studies**.

## FINANCIAL STATEMENTS

The company recently filed Form 10-QSB containing financials for both the quarter and 6 months ended February 2006 on May 18, 2006. Since inception on April 12, 2002, Oramed Pharmaceuticals has generated significant losses from operations. It recently decided to abandon the business of acquisition and exploration of mineral properties and become engaged in the business of the development of a potential oral insulin product. Subsequently the company anticipates that it will continue to generate significant losses from operations for the foreseeable future. As of February 28, 2006, the accumulated **deficit was approximately \$835,630** and the net loss was \$45,781 and \$717,372 for the years ended August 31, 2005 (FY2005) and FY2004 respectively. As of February 28, 2006, the company did not have any cash or cash equivalents. For the 6 months ended February 2006 (Q1 and Q2 FY2006) the company **reported total expenses and a net loss of \$7,282 or 0c EPS** loss per basic share on basic weighted shares outstanding for the period of 18.475 million. Because of these historical losses and its funding requirements (see next section), Oramed will require additional working capital to develop its business operations. The company will not conduct any marketing, advertising or promotion activities for its potential products in the next 12 months as the potential products are still only in research and development stage. Negative cashflow from operations for the first 6 months of FY2006 was \$6,817 which was fully financed by loans due to a shareholder which stands at \$47,252.

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During the quarter ending February 28, 2006, **Oramed sold 22,981,228 shares of common stock to investors for a subscription receivable of \$22,981.** As of February 28, 2006, the proceeds had not been received by Oramed. The sale of the 22,981,228 shares represented more than a majority of the ownership of Oramed resulting in a change of control. The issued and outstanding number of common shares stood at 41,456,779 as at May 15, 2006.

### Liquidity and Capital Resources

Due to significant startup costs, Oramed will likely generated negative cashflow from operations for the second 6 months of FY2006 that ends in August 2006, and at least until lapsing of Q2 FY2007 before revenue generation becomes possible given R&D timelines. If Phase I clinical trails are successful the company could start generating revenues if it sells proprietary work or partners with another drug company. Generally speak shareholders of biotechnology companies does make allowance that FDA approval procedures are time intensive and rather focus on outcomes of clinical trails and other research milestones achieved whilst the company is in developmental stages. As at 28 February 2006, the company had a **working capital deficit of \$51,415.**

As at 28 February, 2006 the company had no cash position and did also not hold any assets. As at the same date the total liabilities of ORMP stood at \$51,415. The company does not expect to purchase any significant equipment during the foreseeable future.

The company is **obligated under the purchase and sale agreement for the provisional patent application No. 60/718716 to raise \$1,000,000 through a private placement of units of its securities.** If the clinical trial report is successful and the company fails to raise the amount of \$1,000,000 within 120 days of the receipt of the clinical trial report, it will be required to return the intellectual property covered by provisional patent application No. 60/718716 to Hadasit without any consideration.

We anticipate that the company will first seek to **raise capital to fund operations for research to the count of at least \$1.345 million net proceeds** and engage in a second round of capital raising after conducting the clinical work that produces positive results on the oral insulin product. The company has disclosed the following breakdown of funds needed during the coming 12 months.

Estimated Funding needed for Operations for 12 months to 28 Feb, 2007	
Salaries	\$185,000
Operations	
Legal Fees	\$50,000
Office Expenses	\$60,000
Research and Development	
Insulin, Carrier and Antiproteases	\$200,000
Kits for Insulin and Glucose	\$50,000
Animal Studies	\$200,000
Clinical Trials (Healthy and Type II	
Diabetes	\$300,000
Pharmaceutical Technology Services	\$200,000
Pharmacist Consultation	\$100,000
<b>Total</b>	<b>\$1,345,000</b>

There are no assurances that the company will be able to either achieve a level of revenues adequate to generate sufficient cash flow for operations; or obtain additional financing through private placements, public offerings and/or bank financing necessary to support its working capital requirements. If adequate working capital is not available or cannot be obtained at acceptable terms, ORMP will be unable to expand its operations and it may have to cease operations.

**Other noteworthy financial and per share statistics are listed in the table found on page 1 of this report.**

### RISK FACTORS /CONCERNS

The business model, and longer term consistency of revenue and income potential, remain uncertain and is not proven. The company is **highly reliant on the successful development of the provisional patent acquired from Hadasit and the R&D of this potential oral insulin product is currently the company's only project.**

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Failure to develop this potential insulin product to completion or obtain regulatory approval for it, either on its own or in collaboration with other pharmaceutical companies, the ability to fund future operations from either revenue or the issuance of additional equity is likely to be adversely affected. Oramed is dependent on the successful culmination of clinical trials and regulatory approval of its potential oral insulin product and failure to develop and market this product will have a significant and negative effect on its ability to continue operations. Its most recent financial statements contain a **going concern qualification** from its auditors.

ORMP business development is substantially dependent on the expertise of its management team and scientific team, the loss of which could materially adversely affect future anticipated results. The company is still considered to be a **development stage company** and generated no revenues and short financial history. Before ORMP can sell any of its potential oral insulin product, they will be required to demonstrate through clinical trials that such product is safe and effective for human use in the treatment of people with Diabetes. The company to date has not successfully commercialized a drug product and they cannot be certain that they will be able to begin, or continue, planned clinical trials for its potential product, or if so able, that the potential product will prove to be safe and will produce the intended effects. Even if safe and effective, the size of the solid dosage form, taste and frequency of dosage may impede the acceptance of this product by patients.

A number of companies in the drug delivery, biotechnology and pharmaceutical industries have suffered significant setbacks in clinical trials, even after showing promising results in earlier studies or trials. ORMP cannot assure you that favorable results in any clinical trial will mean that favorable results will ultimately be obtained in future clinical trials. Similarly, there is no assurance that its potential product will be approved by the U.S. Food and Drug Administration (FDA). The **FDA may make new rulings in future** which mandate a suspension or a recall of production or sales of products sold by ORMP, and result in ORMP losing sales and incurring expenses for a period until the company is in compliance with the regulations specified by the FDA or other regulatory body. All clinical trials, as well as the manufacturing and marketing of its potential product, are subject to extensive, costly and rigorous regulation by various governmental authorities in the United States and other countries. The process of obtaining required approvals from the FDA and other regulatory authorities **often takes many years, is expensive and can vary significantly based on the type, complexity and novelty of the potential product.**

Additionally, Oramed faces the risk that its competitors may gain FDA approval for a product before they are able to do so. Having a competitor reach the market before ORMP would impede the future commercial success for its competing product. The company's business may suffer if they are not able to adequately protect their intellectual patent and proprietary rights. The company has no manufacturing facilities for production of its potential oral insulin product and has no facilities for clinical testing. The success of its program will be dependent upon securing manufacturing capabilities and contracting with clinical service providers. **The company may be at risk of having to obtain a license from third parties making proprietary improvements to its technology.** The testing, manufacture and marketing of products for humans utilizing its potential oral insulin product may expose ORMP to product liability and other claims which may be directly by consumers or by pharmaceutical companies or others selling its product in the future. The company does not yet have product liability insurance. The company's success depends, in part, upon maintaining a competitive position in the development of its potential product. Developments in insulin products are expected to continue at a rapid pace because many pharmaceutical companies are in the process of developing new insulin products and hence the company will face intense competition and rapid technological change.

The company may not be able to generate or obtain sufficient funds to operate its business which, could harm results and force the company to curtail or cease planned operations. Most recent financials statements alert to the fact that liquidity is insufficient to support the expansion, research and development plan(s) of ORMP. There can be no assurance the company will be successful in its effort to secure additional financing for the clinical trails that lie ahead. All of the directors and officers are nationals and/or residents of countries other than the United States, and all or a substantial portion of their assets are located outside the United States. As a result, it may be difficult for investors to enforce within the United States any judgments obtained against these officers or directors, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any U.S. state. The principal research and development facilities are located in Israel and the unstable military and political conditions of Israel may cause interruption or suspension of the company's business operations without warning.

Trading in the shares will continue to be subject to major fluctuations for the foreseeable future. The stock is thinly traded at prices around \$1.00 and selling of small positions could have a negative impact on the share price in absence of sufficient liquidity. The reverse is true if one or more large investors decide to acquire a block of ORMP shares that would result in demand outstripping supply and result in an upward squeeze in the price given the low liquidity and daily trading volume.

**We caution that historical volume activity on ORMPE has been noticeably light, and we are unable to predict the direction of trading volumes over the coming months.** Major dilution of common stock can occur if company issues large blocks of common stock or convertible debt are converted/warrants exercised into common stock, that can negatively impact on the value of the shares either theoretically or if sold in the open market. NASD and SEC Regulations covering rules on Penny Stocks apply for ORMP.

Further elaboration on risk factors are contained in Form 10-QSB, filed with the SEC on May 18, 2006 and readers are advised to read the sections covering the risk factors in its entirety.

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## MANAGEMENT & SCIENTIFIC TEAM

Oramed has a lean executive team that is capable of successfully managing all the operations of the business. The scientific team as a whole has more than 25 years experience in the oral insulin field, as well as in medical research and practice. The team has carried out experiments in animals as well as conducted human trials with several oral formulations of insulin.

### Nadav Kidron – Chief Executive Officer

Mr. Kidron is an experienced entrepreneur whose expertise includes senior executive roles. He has worked in a wide range of industries, ranging from technology start-ups to corporate law firms. Mr. Kidron's achievements include co-founding Mabool.com, an internet start-up in the e-auction business that successfully raised \$1.5 million.

Nadav graduated from Bar-Ilan University in Israel with a Bachelors of Law degree and he is currently studying towards an MBA degree at this alma mater.

### George Drazenovic – Chief Financial Officer

Mr. Drazenovic brings with him over 10 years of experience in accounting, financial management and financial reporting and he is an accomplished financial manager. He has most recently served as the CFO for a public energy technology company with a market capitalization in excess of \$60 million. He has experience in fund raising and knows well all the disclosure and compliance requirements for public companies.

George holds an MBA from the University of Notre Dame (US) and a BA in Economics from University of British Columbia (Canada). He is also a CFA charterholder and Designated Accountant (CGA).

### Hanoch Bar-On , MD

Hanoch Bar-On is a Professor of Internal Medicine and former head of the Diabetes Unit at Hadassah Medical Organization (Israel). He was a visiting Associated Professor in Internal Medicine at Stanford University Medical School and Albert Einstein College of Medicine. Hanoch is a member of the American, European and Israeli Diabetes Associations.

### Miriam Kidron , PhD

Miriam Kidron is a senior researcher, at the Diabetes Unit of Hadassah Medical Organization in Israel. She was formerly a visiting professor at the Medical School of the University of Toronto (Canada). Miriam is a member of the European and Israeli Diabetes Associations.

## INVESTMENT THESIS AND RECOMMENDATION

Our analysis suggests that **Oramed Pharmaceuticals Inc.** is an interesting speculative play among micro-cap companies offering **exposure to the investor on groundbreaking R&D work that can produce a revolutionary new oral treatment option for insulin delivery in the international Diabetes market. The upside potential of the stock is therefore significant given the size of the market capitalization of ORMP in the context of the monetary value of a market share of only a few percentage points, that can be attained in the global insulin delivery market if R&D work is ultimately successful.**

**Oramed's team has demonstrated that the transport of oral insulin from the intestines into the blood circulation is feasible and effective. In this regard, if further research by the company proves successful in delivering insulin into the bloodstream, we believe Oramed will have in its hands an extremely product. The technology would then be licensed to a large pharmaceutical company for FDA approvals and manufacturing.**

Investors who take a shareholding in ORMP **gain exposure to a pharmaceutical company composed of a group of medical research experts with more than 25 years of combined experience** in the oral insulin field. Oramed's team aims at developing and establishing a new technology for the production of oral insulin tablets or capsules.

Both operating and financial risk involved in investing in a young **drug research and developing company is typically high and should be considered by investors.** In this case the risks are tied to the uncertainty surrounding efficacy of the planned drug and success of the coming clinical Phase I trials, legislation or changing customer preferences and availability of other Diabetes treatment methods **and uncertainty about time towards commencement of revenue generation** and eventual profitability from operations. Regulatory compliance and research and development costs associated with initial clinical trails implies that ORMP **will have a negative cash flow from operations that can compound over time** and result in full cash burn of all capital raised without deriving the **intended economic benefit, sales or intellectual property that holds value for another pharmaceutical company to continue the clinical trails beyond Phase I.** Readers should understand that there can be **no assurance that the company will be able to fast-track its intended path towards development and commercialization of this insulin pill/tablet** will flow through directly to the top and or bottom line to build a consistent longer term profitable track record that will build shareholder value.

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We therefore only recommend investors that have a **high tolerance for risk** that are able and willing to forfeit either most or all of their capital in search for extraordinary returns, to consider investing in the shares. Also, in our view investors willing to commit capital to ORMP should do so with **absolute minimum 2 year investment horizon**, but preferably longer, to allow ample opportunity for growth to emerge until broader price discovery can materialize within the investment community that will **allow the value behind the current oral insulin delivery intellectual property and Hadasit patent to be unlocked once Phase I clinical trails are completed and the company can advance its research closer towards full FDA approval which becomes the predominant intermediate term objective for the company and shareholders if Phase I trails produce positive results**. Short term we expect sideways trading pattern to remain in effect until the company receives news from the IRB that its clinical trail application is approved which should be a positive catalyst for the stock.

**In the near term a major risk factor of delays in receipt of additional funding to the count of \$1.345 million for its 2006 R&D Plan, may hinder further improvement in the rating of the shares until adequate funding is secured that will satisfy concerns that may be present, or resurface in the investor community. We believe that this may act as a short-term headwind in the absence of other positive news.**

We are unable to use traditional methods to make a valuation call on the security at this early stage in the company life cycle. Despite the risk attached to **lengthy Diabetes product** trails that is **required to pursue regulatory success** before FDA grants approval for the drug to be brought to market, we know from other biotechnology cases that **similar young biotechnology companies are assigned values for its intellectual property, and that those values typically fluctuate wildly on the back of press releases about progress or lack thereof of clinical trail data**. Our research delivered **two US listed companies, namely Emis Technologies (NASDAQ NM: EMIS) and BioSante (AMEX: BPA)** that were identified as **possible proxies to evaluate the current valuation of ORMP**. Both EMIS and BPA are **trading at higher market capitalizations than ORMP (EMIS: \$226 million on \$4.24 million trailing twelve month revenue and \$51.42 million net loss and BPA: \$56 million market capitalization on trailing twelve month revenue of \$282,500 and \$10.11 million net loss)**. **Both companies have broader pipelines development programs and slightly higher cash balances on hand than ORMP, whilst some trails of certain drugs non-related to Diabetes are in later stages of clinical trails.**

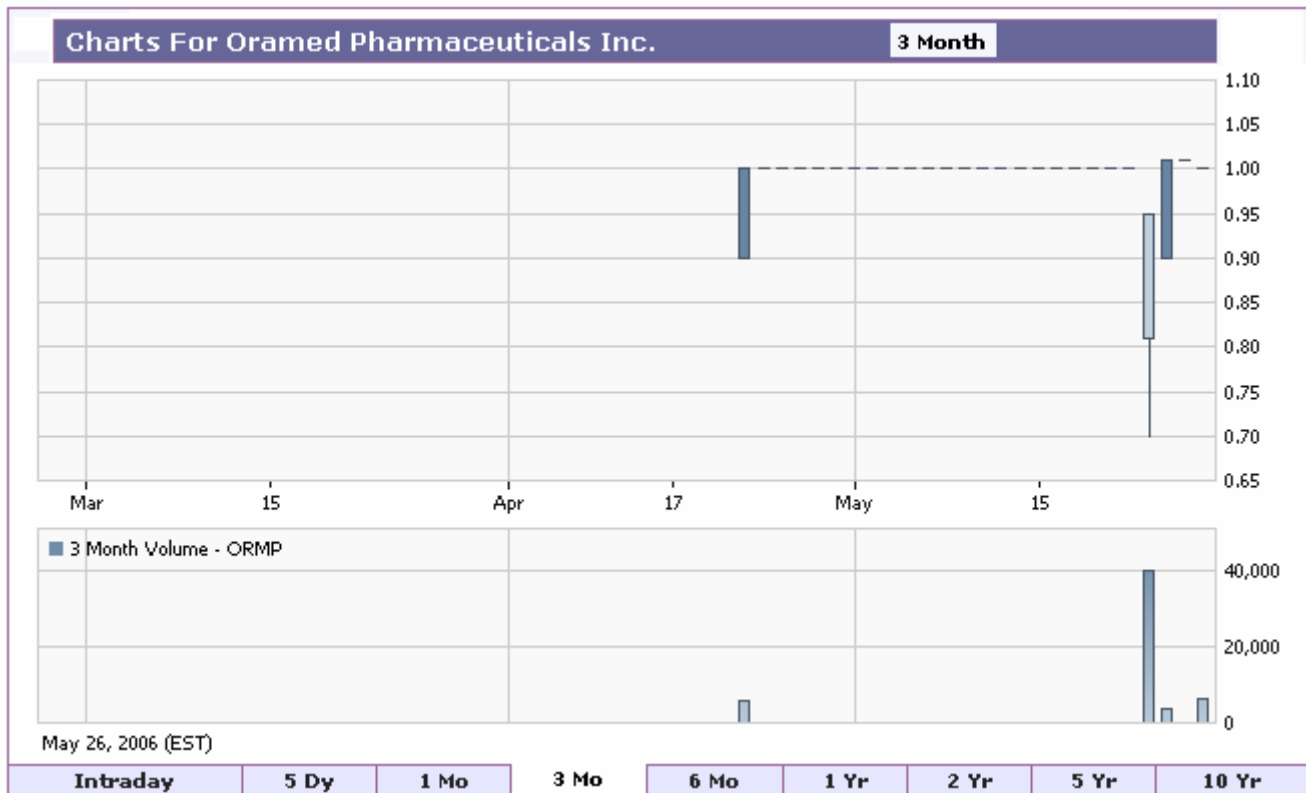
This comparison of ORMP (\$41 million market capitalization) with other issues (EMIS and BPA) suggests to us that the current valuation of ORMP is already in line with that of its listed peers and no anomaly exists that can be readily exploited due to an undeniable undervaluation on a relative basis. We are however positive that there remains upside potential should the company produce positive results from conclusion of its Phase I trials later in FY2006/early FY 2007. Our target price of \$2.05 is set under the assumption that the capital raising event is successfully concluded and ORMP has the option to move towards Phase II trails on its oral insulin treatment in early calendar 2007.

The company is positioned in an industry segment of healthcare where certain trends are expected to sustain the growth of the demand in the Diabetes market. The management has cited the following factors that is underpinning such growth namely: (1) The continued growth in patient population due to the aging population that is consuming the **unhealthy kinds of foods, excess body weight and obesity**; (2) Physicians that are increasingly **shifting from a conventional mono-therapy to a more intensive poly-pharmacy approach** and (3) **the increasing number of diagnosed Diabetes patients as routine screening to diagnose Diabetes is becoming more common.**

When taking into account all of the factors in this report, the risk associated with a developmental stage biotechnology company such as ORMP and relative rating to its peers, we initiate coverage on ORMP with a **SPECULATIVE neutral rating**.

*Risk to our recommendation include amongst other, failure of the company to obtain IRB approval to launch clinical trails for this oral insulin treatment, a slowdown or disruption in its R&D plans due to other regulatory and legislative issues that serve to push out the commissioning of a report for Phase I clinical trails by the end of 2006, unfavorable terms with research partners, new or additional competition or availability for alternative diabetic medication or treatment methods, a change to Medicare reimbursement procedures/policy changes or unforeseen regulatory changes impacting adversely on biotechnology efforts with regards to insulin and diabetic drug research and development, and/or acceptance of its product by patients. Also, any inability to obtain necessary financing from capital markets to proceed with the R&D plans, the loss of intellectual property and patents, which protect its competitive position, the loss of key personnel and or scientists and/or major share dilution that can occur, if large quantities of shares are issued to extinguish debt or paid for services, inability to obtain positive results from Phase I trails to proceed with its oral insulin project, are some additional factors that will counteract price appreciation potential or cause shares to decline in value.*

*We would caution that given the size of the company and risks involved, overall we advise positions be limited below 5% of the client's total portfolio size.*



## ANALYST CERTIFICATIONS

## APPENDIX-A1

The research analyst, who upon request wrote this report, certifies that the views expressed in this research report, accurately reflects his personal view about the subject company. The analyst also certifies that he does not own or have any beneficial interest in shares of the covered company, also that no part of his compensation was, is or will be directly or indirectly related to the specific recommendation or view expressed in this report. Based on the facts that were provided, the industry trends present and sources of information used to produce this report, it is my best opinion and reflection of what the company's rating and share appreciation potential could be once research coverage is widely adopted. Investors are urged to consider this report as only a single factor in making their investment decision. Information, opinions or recommendations contained in this report or research note are submitted solely for advisory and information purposes and we also do not accept any obligation to provide updates to this report in future.

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