MGM MIRAGE
Form 4
June 06, 2005

FORM 4

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

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL	
OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
D ARRIGO DANEIL

(Last) (First) (Middle)

3600 LAS VEGAS BLVD. SOUTH

(Street)

LAS VEGAS, NV 89109

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
MGM MIRAGE [MGM]

3. Date of Earliest Transaction (Month/Day/Year)
06/03/2005

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
SENIOR VICE PRESIDENT

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock $.01 Par Value ND	06/03/2005	06/03/2005	F		950 (1)	D	$ 38.71	5,050 (2)	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
								Date Exercisable	Expiration Date	Title	Amount or Number of Shares		
				Code	V	(A)	(D)						

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
D ARRIGO DANEIL 3600 LAS VEGAS BLVD. SOUTH LAS VEGAS, NV 89109			SENIOR VICE PRESIDENT	

Signatures

Bryan L. Wright, Attorney-In-Fact	06/06/2005
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Shares withheld to cover the reporting person's tax liability in connection with the vesting of certain shares of restricted stock issued on June 3, 2002.

(2) 3,000 of the shares (on a post-split basis) are subject to certain restrictions contained in a Restricted Stock Agreement dated as of June 3, 2002 between MGM MIRAGE and the issuee of the shares, which restrictions terminate upon completion of four years of employment with the company from the date of the Agreement.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. T-FAMILY: times new roman; FONT-SIZE: 10pt">Yoav Kimchy

54

Chief Technology Officer and Director
Alex Ovadia

53

Vice President, Research and Development
Tomer Kariv

54

Chairman of the Board of Directors
Walter L. Robb

87

Director
Richard Stone(1)(2)

72

Director
Alon Dumanis

64

Director
Steven Hanley(1)(2)

48

Director
Yuval Yanai(1)(2)

62

External Director
XiangQian (XQ) Lin

31

Director

---

(1) Member of our Audit Committee.
(2) Member of our Compensation Committee.

Executive Officers and Directors

Guy Neev has served as our chief executive officer since our inception in April 2009 and has served as a member of our board of directors since April 2009. Since March 2008, Mr. Neev has served as the chief executive officer of Check-Cap LLC and as a member of the board of directors of Check Cap Ltd. (Delaware), the manager of Check-Cap LLC. Prior to assuming his position as Check-Cap LLC's chief executive officer, Mr. Neev served as an executive consultant to Check-Cap LLC and as a part-time chief executive officer for several early stage medical devices companies in Israel. Between 2004 and 2007, Mr. Neev served as chief executive officer and vice president of business development of Cappella Inc., a medical devices company developing stents for cardiovascular applications, after serving as a cardiovascular business unit manager at Boston Scientific Corporation from 2003 to 2004. Prior to that, from 1997 to 2003, Mr. Neev served as business unit manager at Azimuth Technologies Ltd. and as chief executive officer of its subsidiary, Waycomm Wireless Solutions Ltd. Mr. Neev also served as a major in the Israeli Air Force. Mr. Neev holds a B.A. degree in economics from Bar Ilan University, Israel and a M.I.B. (Masters in International Business) degree from Norges Handelshoyskole, Bergen, Norway.

Lior Torem has served as our chief financial officer since May 2010, on a part-time basis until March 2015 and on a full-time basis since March 2015. Beginning in January 2010, Mr. Torem served as an executive consultant to our company. From November 2008 to March 2015, Mr. Torem served as the chief financial officer, on a part-time basis, of Superfish, Inc., a developer of visual search technology for searching images. From 2003 to 2009, Mr. Torem served as vice president of finance at Actelis Networks Inc., a provider of high performance, scalable broadband over copper solutions, and from 2001 to 2003, served as vice president of finance at its subsidiary Actelis Networks Ltd. Prior to that, from 1997 to 2000, Mr. Torem served as corporate controller at Mentergy Ltd., a publicly-traded company that provides e-learning solutions and satellite communications services. Mr. Torem holds a B.A. degree in accounting and economics from Bar Ilan University, an MBA degree from Haifa University and he is a Certified Public Accountant in Israel.

Yoav Kimchy has served as our chief technology officer since our inception in April 2009 and a member of our board of directors since April 2009. Dr. Kimchy founded Check-Cap LLC in December 2004, serving as its president and chief executive officer until March 2008, and as its president and chief technical officer since March 2008. Dr. Kimchy has also served as a member of the board of directors of Check-Cap Ltd. (Delaware), the manager of Check-Cap LLC, since December 2004. Between 2005 and 2012, Dr. Kimchy also served as our vice president of research and development. Between 2000 and 2003, Dr. Kimchy served as the vice president of research and development of V-Target Ltd. (Israel), a medical device company developing gamma imaging applications. Prior to that, from 1998 to 2000, Dr. Kimchy served as director of cardiovascular research at Impulse Dynamics Ltd. (Israel), a medical device company developing a unique therapeutic pulsing technology for chronic heart failure. From 1994 to 1998, Dr. Kimchy served as a systems engineer and algorithm specialist for an Israeli government contract project with the Israeli Navy. Dr. Kimchy also served as a lieutenant in the Israeli Navy. Dr. Kimchy holds a B.Sc. degree in physics and mathematics from the Hebrew University of Jerusalem, an M.Sc. degree in biomedical engineering from Tel Aviv University and a PhD from the Technion-Israel Institute of Technology.

Alex Ovadia has served as our vice president of research and development since January 2013. Prior to that, between 2001 and 2012, Mr. Ovadia served in various positions as global director and senior manager for CT research and development at Philips Healthcare. In these capacities he led global organizations including systems engineering, physics, system verification and hardware development. Mr. Ovadia was also appointed as a member of Global CT R&D staff and member of management of Philips Medical System Technologies Ltd. Prior to that, from 1990 to 2001, Mr. Ovadia served as project/systems engineering manager for large scale military projects, mainly aircraft upgrades for U.S. and European governments performed by Elbit Systems Ltd. Mr. Ovadia holds a BSc degree in electrical engineering from the Technion-Israel Institute of Technology.

Tomer Kariv has served as a member of our board of directors since June 2009 and as the chairman of our board of directors since July 2010. Mr. Kariv has served as a member of the board of directors of Check Cap Ltd. (Delaware) and a manager of Check-Cap LLC since March 2008. Mr. Kariv is the co-founder and since December 2004, has served as Chief Executive Officer of Pontifax, a group of Israeli-based life sciences venture funds focusing on investments in bio-pharmaceutical and med-tech technologies. Mr. Kariv has also served as an active board member of many of the funds' portfolio companies, assuming a special responsibility for strategic planning. Among others, since March 2008, Mr. Kariv has served as a board member of Macrocure Ltd. and Arno Therapeutics Inc. During the 10 years prior to establishing Pontifax, Mr. Kariv played a key role in investing, managing and nurturing technology driven companies and startups and has held senior management positions at top Israeli financial institutions. Mr. Kariv practiced law with Sullivan & Cromwell, a leading corporate law firm in New York, and holds a B.A. degree in Economics from Harvard University and a J.D. from Harvard Law School.

Walter L. Robb has served as a member of our board of directors since May 2009. Dr. Robb has served as a member of the board of directors of Check Cap Ltd. (Delaware) and a manager of Check-Cap LLC since February 2005. Dr. Robb is the general partner of each of Counterpoint Ventures Fund LP, established in 2004, and Counterpoint Ventures Fund II LP, established in 2011. Since 2009, Dr. Robb has served as the interim chief executive officer of Cyclics Corporation, which manufactures and supplies resins and thermoplastic tooling products. Since 1993, Dr. Robb has served as a management consultant and president of Vantage Management, Inc. a private investment and consulting firm. Dr. Robb served as a member of the boards of directors of Celgene Corporation from 1992 to 2011 and has served as a member of the board of directors of Mechanical Technology, Inc. since 2000. Dr. Robb has also served as a director in several start-up companies over the last 20 years. Until 1993, Dr. Robb served as senior vice president and director for corporate research and development for General Electric, and served on General Electric's Corporate Executive Council from 1986 to 1993. Dr. Robb was the director of GE Medical Systems from 1973 to 1986. In September 1994, Dr. Robb received the National Medal of Technology from President Clinton for leadership in the CT and MR Imaging Industry. Dr. Robb holds a BS degree in chemical engineering from Penn State University and an MS degree and PhD in chemical engineering, both from the University of Illinois.

Richard Stone has served as a member of our board of directors since May 2009. Professor Stone has served as a member of the board of directors of Check Cap LLC since August 2005. Professor Stone began his legal career in private practice and in 1969, was appointed to the position of Assistant Solicitor General of the United States, an office which he held until 1973. In 1974, Professor Stone was appointed to the faculty of Columbia Law School, where he still teaches today primarily in the area of taxation. Professor Stone is active in Israeli venture capital, and serves as a director on a number of boards of directors of Israeli companies. Professor Stone was recently Chairman of the Conference of Presidents of Major American Jewish Organizations. Professor Stone serves as a member of the Board of Directors of Powermat Technologies, Wellsense Technologies, Quality InFlow Ltd., Illumigyn Ltd., Nanox Imaging Plc and LabStyle Innovations, and serves as the chairman of the board of directors of Espro Information Technologies, Inc. and Cardiologic Innovations. Professor Stone holds an A.B. from Harvard College and an LL.B. degree from Harvard Law School.

Alon Dumanis has served as a member of our board of directors since 2010. Dr. Dumanis has over 30 years of experience in international business development, entrepreneurial, and technological management of high-technology companies, the domains of which, include information, aviation, electronics, life science and emerging technology. Dr. Dumanis has managed multibillion dollar research and development programs and many large scale projects in engineering, security and information. Since 2001, Dr. Dumanis has served as the chief executive officer of Docor International Management Ltd., a Dutch investment company and since 2010, has served as the chief executive officer of its parent company, Crecor B.V. Dr. Dumanis is currently the chairman of the board of directors of Xsight Systems Ltd., Softlib Ltd. and DNR Imaging Systems Ltd. and is a member of the board of directors of Spectronix Ltd. (TASE-SPCT), Nova Measuring Instruments Ltd. (NASDAQ-NVMI), Aposense Ltd. (TASE –APOS), Collplant Holdings Ltd. (TASE-CLPT) and other hi-technology companies of Docor's investment portfolio. Dr. Dumanis is a former member of the board of directors of El Al Israel Airlines Ltd. (TASE –ELAL), Tadiran Communications Ltd. (TASE-TDCM) and Inventech Investments Co. Ltd. (TASE-IVTC). From 1996 to 2000, Dr. Dumanis was Head of Material Command for the Israel Air Force, where he held the rank of Brigadier General. Dr. Dumanis holds a BS degree and MS degree in Aeronautical Engineering both from the Technion-Israel Institute of Technology, and a PhD in Aeronautical Engineering from Purdue University in Indiana, USA.

Steven Hanley has served as a member of our board of directors since February 24, 2015. Mr. Hanley is currently the Co-Founder and Chief Executive Officer of MediBeacon LLC, an optical diagnostic company based in St. Louis Missouri formed upon acquiring assets and intellectual property from Covidien in 2012. Mr. Hanley is an experienced global business leader who has managed highly complex pharmaceutical and medical device operations with annual global revenue exceeding $1 billion. As the President of Covidien plc’s Imaging Solutions business unit, he led a multifunctional organization that included sales, marketing, logistics, manufacturing, as well as research and development. Internationally, his track record includes numerous new drug and device product introductions and sales force expansion in Eastern Europe, China and Latin America. Mr. Hanley is experienced working in different cultures and successfully navigating dynamic regulatory environments. Over his nearly 18 years with the Covidien family of companies, Mr. Hanley developed a large network of business leaders and clinicians to help determine market needs, commercial potential and product positioning. As a sales leader, Mr. Hanley called on radiologists, nuclear medicine physicians, cardiologists, as well as surgeons in specialties including general, orthopedic, and OB/GYN. Mr. Hanley is Principal and Founder of Neem LLC, which was founded in 2009 to focus on startup and entrepreneurial medical device and other life science companies with whom the firm works to bridge the gap between breakthrough technology and commercialization. Mr. Hanley is the Chairman of the Board of Managers for Daya CNS LLC, based in St Louis Missouri. In addition, Mr. Hanley is currently on the Advisory Board for Kogent Surgical LLC, based in St Louis Missouri. Mr. Hanley has his bachelor’s and master’s degrees in business administration from Marquette University. Mr. Hanley has provided consultancy services to the Company on behalf of Neem LLC since November 2009 and has served as a Scientific Advisor to the Company since June 2011. Mr. Hanley and Neem LLC will cease to provide such consultancy services to the Company and Mr. Hanley will cease to serve as Scientific Advisor to the Company effective as of such election.

Yuval Yanai has served as a member of our board of directors as an external director (within the meaning of the Israeli Companies Law) since March 15, 2015. Mr. Yanai served as Senior Vice President and Chief Financial Officer of Given Imaging Ltd. from September 2005 through March 2014. From October 2000 through August 2005, Mr. Yanai served as Senior Vice President and Chief Financial Officer of Koor Industries Ltd., one of Israel's largest holding companies. Prior to that, from April 1998 to September 2000, Mr. Yanai served as Vice President and Chief Financial Officer of NICE Systems Ltd., an Israeli global provider of Insight from Interactions, and, from 1991 to April 1998, he served as the Vice President, Finance and Chief Financial Officer of Elscint Ltd., a former Israeli company engaged in the manufacturing of medical imaging devices that was acquired by larger companies in this field. Mr. Yanai joined Elscint in 1985 and served as Corporate Controller and Corporate Treasurer through 1991. Mr. Yanai serves as an external director (within the meaning of the Israeli Companies Law) of Macrocure Ltd., an Israeli company whose shares are listed on the NASDAQ Global Market. Mr. Yanai also serves as an external director (within the meaning of the Israeli Companies Law) of Medical Compression Systems (D.B.N) Ltd., an Israeli company whose shares are listed on the Tel Aviv Stock Exchange, and serves as the Chairman of its audit committee, compensation committee and financial reporting committee. Mr. Yanai also serves as an external director (within the meaning of the Israeli Companies Law) of Haddasah Medical Center. Previously, Mr. Yanai served as a director of Citycon Oj, Starplast Industries Ltd., Adama Ltd. (formerly Makteshim-Agan Industries Ltd.), ECI Telecom Ltd., Equity One, Inc., BVR Systems Ltd., Tadiran Communication Ltd., The Elisra Group and Telrad Networks Ltd. Mr. Yanai holds a B.Sc. degree in Accounting and Economics from Tel-Aviv University.

XiangQian (XQ) Lin, has served as a member of our board of directors, since February 24, 2015. In addition, subject to the execution of a definitive agreement, we intend to engage Mr. Lin to provide us business development services in Asia. Mr. Lin has served as the Group President and Chief Executive Officer of the Esco Group of Companies, a leading global life sciences tools provider active in laboratory, medical and pharmaceutical equipment based in Singapore, since February 2011. Since 2014, Mr. Lin has also served as the Managing Partner of Esco Ventures, a strategic investment arm of the Esco Group of Companies, focused on early stage investment in life sciences tools and med-tech start-ups, since he founded it in August 2014. From January 1997 until February 2011, Mr. Lin held various positions, lastly as Vice President, of Esco Micro Pte Ltd., a family business which he re-engineered into a successful life sciences tools company when he founded the Esco Biotech unit in 2000. From January 2007 to December 2010, Mr. Lin also served as the President of Esco Technologies, Inc., a wholly-owned U.S. subsidiary of Esco Micro Pte Ltd., which he established following a buy-out of a joint venture partner. Mr. Lin is the only non-U.S. member of the US NSF Standard 49 Joint Committee and is also a member of the Young Presidents Organization and the Singapore Venture Capital and Private Equity Association. Mr. Lin holds a BSc degree in Economics from the Wharton School, University of Pennsylvania.

Arrangements Concerning Election of Directors; Family Relationships

Our current board of directors consists of nine directors. We expect to elect one additional external director (within the meaning of the Israeli Companies Law) at a shareholder meeting to be held on May 19, 2015. Pursuant to our articles of association in effect prior to our initial public offering, certain of our shareholders had rights to appoint members of our board of directors. All such rights to appoint directors and observers terminated upon the closing of our initial public offering, although currently-serving directors that were appointed prior to our initial public offering will continue to serve pursuant to their appointment until the next annual meeting of shareholders or until their office is vacated.

We are not a party to, and are not aware of, any voting agreements among our shareholders. In addition, there are no family relationships among our executive officers and directors.

Scientific Advisors

Certain of our officers and employees including our Chief Executive Officer, our Chief Technology Officer, our Vice President, Research & Development and our clinical director have consulted on an individual, as needed basis with the individuals listed below with respect to matters of scientific relevance. We refer to these individuals as our Scientific Advisors. The amount of consulting services provided by our Scientific Advisors ranges from several hours a month to several hours a year. We intend to establish a routine of group meetings of these individuals as additional clinical data is generated. The names and biographies of the individuals who act as our Scientific Advisors are set forth below:

Dr. Douglas K. Rex is the Chancellor's Professor and Professor of Medicine at Indiana University School of Medicine and Director of Endoscopy at Indiana University Hospital. His major research interests have been in colorectal disease and, in particular, CRC screening and the technical performance of optical colonoscopy. He co-authored the CRC screening recommendations of the American College of Gastroenterology and those of the Gastroenterology Consortium. He has authored more than 110 original research papers, 50 book chapters, 100 invited papers and editorials, and 15 guideline papers. He is an Associate Editor of Journal Watch Gastroenterology and Reviews on Gastroenterological Disorders, and is a member of the Editorial Boards of Clinical Gastroenterology and Hepatology, Journal of Clinical Gastroenterology, World Journal of Gastroenterology and Gastroenterology and Hepatology. He has served as the ACG representative to the National Colorectal Cancer Round Table, and from 2000-2006 was the chairman of the U.S. Multi-Society (ACG, ASGE, AGA, ACP-ASIM) Task Force on Colorectal Cancer. He has also served in the American College of Gastroenterology as Chairman of the Board of Governors, Secretary, and Treasurer and is a Past President of the ACG. He was awarded Distinguished Professor in 2009. He graduated from Harvard College, summa cum laude, in 1976, and with highest distinction from Indiana University School of Medicine in 1980. Mr. Rex has served as a Scientific Advisor to the Company since July 2009.

Dr. Walter L. Robb is a mentor, director and angel investor to many Tech Valley start-ups. Dr. Robb joined General Electric in 1951 and served in various capacities at GE in management, research and development, retiring in 1992 as Senior Vice President for Corporate Research and Development and a member of the company's Corporate Executive Council. For a time he directed GE's Schenectady R&D Center, one of the world's largest and most diversified industrial laboratories, with about 1,650 scientists, engineers and technicians concentrating on the company's longer-range research and development needs. Dr. Robb headed GE Medical Systems (headquartered in Milwaukee) from 1973 to 1986, building it into the world's leading producer of medical diagnostic imaging equipment. He holds 12 patents and authored more than a score of articles in professional journals. He is a member of the National Academy of Engineering. In 1993, he received the National Medal of Technology from then President Clinton for his leadership in the CT and MR imaging industry. Dr. Robb serves on the board of directors of Celgene Corporation and Mechanical Technology, Inc., which are publicly traded. Dr. Robb received a BS degree in chemical engineering from Penn State University in 1948 and an MS degree and PhD in chemical engineering both from the University of Illinois in 1951. Dr. Robb has served as a Scientific Advisor to the Company since May 2009.

Dr. Perry J. Pickhardt is a professor in the University of Wisconsin Medical School. He served in the U.S. Navy, spending one year as the Department Head of Radiology, U.S. Naval Hospital Guantanamo Bay, Cuba and three years as the head of GI-GU Imaging at the National Naval Medical Center in Bethesda, MD. He also served as an Assistant Professor of Radiology at the Uniformed Services University of the Health Sciences in Bethesda. Among other projects at NNMC, Dr. Pickhardt organized a large multi-center screening trial evaluating CTC and served as the PI. Among other awards and honors, Dr. Pickhardt completed a Figley Fellowship at the AJR Editorial Office in Winston- Salem, NC in 2002. CTC and CRC screening continue to be Dr. Pickhardt's primary clinical and research interests. His work has resulted in over 250 scientific publications and book chapters, and 3 textbooks including a textbook on body CT. He graduated first in his class from the University of Wisconsin with a B.S. in Physics in 1991 and from the University of Michigan Medical School in 1995. Dr. Pickhardt has served as a Scientific Advisor to the

Company since August 2009.

Prof. Nadir Arber is a full Professor of Medicine and Gastroenterology. He is a holder of the Yechiel and Helen Lieber chair for Cancer Research at Tel Aviv Sourasky Medical Center and Tel Aviv University, Sackler School of Medicine. Prof. Arber serves as the Director of the Integrated Cancer Prevention Center (ICPC) at Tel Aviv Sourasky Medical Center in Tel Aviv. He also chairs the grants committee of the Sackler School of Medicine at Tel Aviv University. Prof. Arber is the Head of Cancer Research Center, Head of Djerassi Oncology Center, and President of the Israeli Association of Gastroenterology. Prof. Arber, a noted expert in the field of early detection and prevention, has been serving as the principal investigator (PI) of several international, multicenter clinical trials in the field of early detection, prevention and therapy of gastrointestinal malignancies using NSAIDs and in particular, CRC. Prof. Arber has published more than 330 publications. Prof. Arber received a MD from the Hadassah School of Medicine of the Hebrew University of Jerusalem in 1987, an MSc degree from Sackler School of Medicine, Tel Aviv University in 1991 and a MHA degree from Rekanaty School of Management, Tel Aviv University in 1991. Prof. Arber has served as a Scientific Advisor to the Company since January 2012.

Dr. Jonathan A. Leighton is Professor of Medicine and Chair of the Division of Gastroenterology and Vice Chair of the Department of Medicine at the Mayo Clinic in Arizona. In addition, Dr. Leighton is a member of the Board of Trustees of the American College of Gastroenterology. Dr. Leighton is an active member of, the American Gastroenterology Association, the American Society of Gastrointestinal Endoscopy, and the American College of Gastroenterology. His research interests include inflammatory bowel disease, biomarker discovery, as well as small bowel imaging including optical capsule endoscopy and deep enteroscopy. Dr. Leighton received an MD degree from the University of Arizona in 1981 and completed his internship and residency at the University of Texas Health Science Center in San Antonio, Texas in 1984. Dr. Leighton has served as a Scientific Advisor to the Company since July 2014.

B. Compensation

The aggregate compensation paid and share-based compensation and other payments expensed by us to our directors and executive officers with respect to the year ended December 31, 2014 was $1.5 million. This amount includes approximately $130,000 set aside or accrued to provide pension, severance, retirement or similar benefits or expenses, but does not include business travel, professional and business association dues and expenses reimbursed to office holders, and other benefits commonly reimbursed or paid by companies in our industry. As of December 31, 2014, options to purchase 1,023,961 ordinary shares granted to our directors and executive officers were outstanding under our 2006 Unit Option Plan at a weighted average exercise price of approximately $4.26 per share.

Effective as of January 1, 2013, our chief executive officer, chief financial officer and chief technology officer agreed to a temporary 20% reduction in their salaries, as part of cost cutting measures. To compensate such executives for the salary reduction, we agreed that upon completion of an equity financing, which included our initial public offering, each such executive will be entitled to the following: (i) a cash payment equal to the cost of such executive's salary reduction plus 8% annual interest; (ii) options to purchase a number of ordinary shares equal to such executive's cash payment divided by $4.96 with an exercise price per share equal to $4.96 and (iii) a one-time bonus equal to one and a half monthly salaries of such executive, provided that the aggregate bonuses for all such executives may not exceed $60,000 and the aggregate compensation for all such executives may not exceed $250,000. In connection with the consummation of our initial public offering and concurrent private placement, we granted to such executive options to purchase an aggregate 38,473 ordinary shares. Such options were granted under our 2006 Unit Option Plan and were fully vested upon grant.

Effective as of the closing of the credit line agreement that we entered into on August 20, 2014, the employment terms of each of our executive officers were amended as follows: (i) the respective base salaries of each of our executive officers increased effective as of November 1, 2014 by an aggregate annual amount of $348,000 for all executive officers (based on pre-reduced salaries); (ii) each of our chief executive officer and chief financial officer is entitled to a one-time bonus of specified amounts in the aggregate amount of $200,000 for both executive officers; (iii) each of our executive officers shall be entitled to an annual bonus up to certain specified amounts, at the discretion of our board of directors and subject to milestones determined by the board of directors; and (iv) we granted our executive officers options to purchase, in the aggregate, 581,542 of our ordinary shares, constituting, in the aggregate, 5.25% of our fully diluted share capital as of the closing, with an exercise price of NIS 0.20 per share. Each of the executive officers subsequently agreed that the exercise price of fifty-percent of their respective options will increase to equal the price at which our ordinary shares are sold to the public in the initial public offering of our securities, or if units are sold in the initial public offering of our securities, the exercise price per share will increase to be equal to the effective price per share of the ordinary shares underlying the units sold to the public in the offering. The executive officers also agreed that such portion of their options will vest and become exercisable only upon the consummation of the initial public offering of our securities prior to their expiration date. The remaining options with an NIS 0.20 exercise price will vest on a quarterly basis in eight equal installments during a period of 24 months from grant. In addition, the executive officers agreed to reduce the term of their respective options such that these options will now expire after eight years (instead of ten years) following their issuance, i.e., on October 14, 2022. Upon the closing of our initial public offering any unvested portion of the options became fully vested and exercisable.

We do not have any written agreements with any director providing for benefits upon the termination of such director's relationship with us.

76

Employment Agreements with Executive Officers

We have entered into written employment agreements with each of our executive officers. These agreements contain provisions standard for a company in our industry regarding non-competition, confidentiality of information and assignment of inventions. The enforceability of covenants not to compete in Israel and the United States is subject to limitations. For example, Israeli courts have recently required employers seeking to enforce non-compete undertakings of a former employee to demonstrate that the competitive activities of the former employee will harm one of a limited number of material interests of the employer which have been recognized by the courts, such as the secrecy of a company's confidential commercial information or its intellectual property.

In the event our chief executive officer's employment is terminated other than for cause, he will be entitled to a one-time severance fee in an amount equal to 50% of his annual salary prior to the voluntary 20% reduction in his salary effective as of January 1, 2013. If his employment is terminated prior to the consummation of an initial public offering of our shares, we may elect, at our discretion, in lieu of payment of the foregoing severance fee, to grant to him fully vested options to purchase 200,000 of our ordinary shares, at an exercise price of NIS 0.20, exercisable for a period of ten years from the issuance thereof. If his employment is terminated after the consummation of an initial public offering of our shares, the severance fee will be amended to 50% of his amended annual salary following the initial public offering (and we will not be entitled to grant options in lieu of payment of the severance fee). Other than the foregoing, our agreements with our executive officers do not provide for benefits upon the termination of their respective employment with us, other than payment of salary and benefits during the required notice period for termination of these agreements, which varies under these individual agreements.

C. Board Practices

Board of Directors

Under the Israeli Companies Law, the management of our business, including strategy and policies, is vested in our board of directors. Our board of directors may exercise all powers and may take all actions that are not specifically granted to our shareholders or to management. Our executive officers are responsible for our day-to-day management and have individual responsibilities established by our board of directors. Our chief executive officer is appointed by, and serves at the discretion of, our board of directors, subject to the employment agreement that we have entered into with him. All other executive officers are appointed by our chief executive officer, and are subject to the terms of any applicable employment agreements that we may enter into with them.

Under our amended articles of association, which became effective upon the closing of our initial public offering, our board of directors must consist of at least four and not more than eleven directors, including at least two external directors required to be appointed under the Israeli Companies Law. Our board of directors currently consists of nine directors, including one external director, whose election is subject to ratification at a meeting of our shareholders to be held on May 19, 2015. In addition, we expect to elect one additional external director at a meeting of our shareholders to be held on May 19, 2015.

We intend to comply with the NASDAQ Listing Rule that requires that a majority of our board of directors be comprised of independent directors in accordance with the phase-in schedule of the NASDAQ Listing Rules, which permits us to have a majority of independent directors within 12 months following the consummation of our initial public offering. The definition of independent director under the NASDAQ Listing Rule and external director under the Israeli Companies Law overlap to a significant degree, such that we would generally expect our two directors serving as external directors under the Israeli Companies Law to satisfy the requirement to be independent under NASDAQ Listing Rule. The definition of external director under the Israeli Companies Law includes a set of statutory criteria that must be satisfied, including criteria whose aim is to ensure that there is no factor which would impair the ability of the external director to exercise independent judgment. The definition of independent director under NASDAQ Listing Rule specifies similar, if slightly less stringent, requirements in addition to the requirement that the board consider any factor which would impair the ability of the independent director to exercise independent judgment. However, external directors must be elected by a special majority of shareholders while independent directors may be elected by an ordinary majority. See "— External Directors" for a description of the requirements under the Israeli Companies Law for a director to serve as an external director.

Other than external directors, who are subject to special election requirements under the Israeli Companies Law (as detailed below), our amended and restated articles of association require that our directors be elected by the general meeting of our shareholders by the vote of a majority of the ordinary shares present, in person or by proxy, and voting at that meeting. Each director (other than the external directors) will hold office until the first annual general meeting of shareholders following his or her appointment, unless the tenure of such director expires earlier pursuant to the Israeli Companies Law or unless he or she is removed from office as described below. In addition, our amended articles of association allow our board of directors to appoint directors (other than the external directors) to fill vacancies on our board of directors, for a term of office equal to the remaining period of the term of office of the director(s) whose office(s) have been vacated. See "— External Directors" for a description of the procedure for the election of external directors.

In accordance with the exemption available to foreign private issuers under the NASDAQ Listing Rules, we do not intend to follow the requirements of the NASDAQ Listing Rules with regard to the process of nominating directors, and instead, will follow Israeli law and practice, in accordance with which our board of directors (or a committee thereof) is authorized to recommend to our shareholders director nominees for election.

Under the Israeli Companies Law and our amended and restated articles of association, nominations for directors may also be added to the agenda of a future general meeting of shareholders, at the request of any one or more shareholders holding at least 1% of our outstanding voting power. Any director nominated by a shareholder is required to certify to us, as required by all director nominees, that he or she meets all the requirements of the Israeli Companies Law for election as a director of a public company, and possesses the necessary qualifications and is able to dedicate sufficient time, to fulfill his or her duties as a director of our company, taking into consideration our company's size and special needs.

Under the Israeli Companies Law, our board of directors must determine the minimum number of directors who are required to have accounting and financial expertise. See "— External directors." In determining the number of directors required to have such expertise, our board of directors must consider, among other things, the type and size of the company and the scope and complexity of its operations. Our board of directors has determined that the minimum number of directors of our company who are required to have accounting and financial expertise is one.

External Directors

Under the Israeli Companies Law, our board of directors is required to include at least two members who qualify, and were elected as, external directors (within the meaning of the Israeli Companies Law). We elected one external director, Mr. Yuval Yanai, prior to our initial public offering, whose election is subject to ratification at a meeting of our shareholders to be held on May 19, 2015 and we expect to elect one additional external director at the shareholder meeting to be held on May 19, 2015.

The provisions of the Israeli Companies Law set forth special approval requirements for the election of external directors. External directors must be elected by a majority vote of the shares present and voting on the matter at a shareholders meeting, provided that either:

- such majority includes at least a majority of the shares held by all shareholders who are non-controlling shareholders and shareholders who do not have a personal interest in the election of the external director (other than a personal interest not deriving from a relationship with a controlling shareholder) that are voted at the meeting, excluding abstentions, which we refer to as a disinterested majority; or

- the total number of shares held by shareholders who are non-controlling shareholders and shareholders who do not have a personal interest in the election of the external director (other than a personal interest not derived from a relationship with a controlling shareholder) voted against the election of the external director does not exceed 2% of the aggregate voting rights in the company.

The term "controlling shareholder" is defined in the Israeli Companies Law as a shareholder with the ability to direct the activities of a company, other than by virtue of being an office holder. A shareholder is deemed to be a controlling shareholder if the shareholder holds 50% or more of the voting rights in the company or has the right to appoint 50% or more of the directors of a company or its general manager. For purposes of shareholder approval of certain extraordinary and interested party transactions, as well as corporate approval of executive compensation, a controlling shareholder is deemed to include any shareholder (or two or more shareholders having a personal interest in the same matter being brought for approval) who hold(s) in the aggregate 25% or more of the voting rights in a public company if no other shareholder holds more than 50% of the voting rights in the company.

The term “personal interest” is defined in the Israeli Companies Law as a person’s or entity’s personal interest in an act or a transaction of a company, (i) including the personal interest of (a) any spouse, sibling, parent, grandparent or descendant of the persons, any descendant, sibling or parent of a spouse of the person and the spouse of any of the foregoing; and (b) an entity in which the person or entity or any of the foregoing relatives of the person serves as a director or the chief executive officer, owns at least 5% of its issued share capital or voting rights or has the right to appoint one or more directors or the chief executive officer; but (ii) excluding a personal interest arising solely from the ownership of shares. In the case of a person voting by proxy, “personal interest” includes the personal interest of the proxy holder or the shareholder granting the proxy (even if the proxy holder has no personal interest in the matter), whether or not the proxy holder has discretion how to vote.

78

The initial term of an external director is three years. Thereafter, an external director may be reelected by shareholders to serve in that capacity for up to two additional three-year terms, provided that either:

- his or her service for each such additional term is recommended by one or more shareholders holding at least 1% of the company's voting rights and is approved at a shareholders meeting by a disinterested majority, where the total number of shares held by non-controlling, disinterested shareholders voting for such reelection exceeds 2% of the aggregate voting rights in the company, and provided further that the external director is not an affiliated or competing shareholder, as defined in the Israeli Companies Law, or a relative of such a shareholder at the time of the appointment, and is not affiliated with such a shareholder at the time of appointment or within the two years preceding the date of appointment;

- his or her service for each such additional term is recommended by the board of directors and is approved at a shareholders meeting by the same majority required for the initial election of an external director (as described above); or

- such external director nominates himself or herself for each such additional term and his or her election is approved at a shareholders meeting by the same disinterested majority as required for the election of an external director nominated by a 1% or more shareholder (as described above).

However, the term of office for external directors for Israeli companies traded on certain foreign stock exchanges, including the NASDAQ Capital Market, may be extended indefinitely in increments of additional three-year terms, in each case provided that the audit committee and the board of directors of the company confirm that, in light of the external director's expertise and special contribution to the work of the board of directors and its committees, the reelection for such additional period(s) is beneficial to the company, and provided that the external director is reelected subject to the same shareholder vote requirements as if elected for an additional term (as described above). Prior to the approval of the reelection of the external director at a general shareholders meeting, the company's shareholders must be informed of the term previously served by him or her and of the reasons why the board of directors and audit committee recommended the extension of his or her term.

If the board of directors has determined that an external director ceases to meet the statutory qualifications for appointment or if he or she violates his or her duty of loyalty to the company, the board of directors is required to call a special general meeting of shareholders for the removal of the external director. In such circumstances, the removal of the external director by the shareholders requires the same special shareholder majority that is required for the election of an external director, as described above. An external director may also be removed by order of an Israeli court, at the request of a director or shareholder, if the court finds that the external director has ceased to meet the statutory qualifications for his or her appointment or has violated his or her duty of loyalty to the company. If an external directorship becomes vacant and there are fewer than two external directors on the board of directors at the time, then the board of directors is required under the Israeli Companies Law to call a shareholders' meeting as soon as practicable to appoint a replacement external director.

Each committee of the board of directors that exercises the powers of the board of directors must include at least one external director, except that the audit committee and the compensation committee must include all external directors then serving on the board of directors. Under the Israeli Companies Law, external directors of a company are prohibited from receiving, directly or indirectly, any compensation for their services as external directors other than pursuant to the Israeli Companies Law and the regulations promulgated thereunder. Compensation of an external director is determined prior to his or her appointment and may not be changed during any three-year term subject to certain exceptions.

The Israeli Companies Law provides that a person is not qualified to serve as an external director if (i) the person is a relative of a controlling shareholder of the company; or (ii) if that person or his or her relative, partner, employer, another person to whom he or she was directly or indirectly subordinate, or any entity under the person's control, has or had, during the two years preceding the date of appointment as an external director: (a) any affiliation with the company, with any person or entity controlling the company or a relative of such person at the time of appointment, or with any entity controlled by or under common control with the company at the time of appointment or during the two years preceding the appointment; or (b) in the case of a company with no controlling shareholder or a shareholder holding 25% or more of its voting rights, had at the date of appointment as an external director, any affiliation with a person then serving as chairman of the board or chief executive officer, a holder of 5% or more of the issued share capital or voting power in the company or the most senior financial officer.

The term "relative" is defined as a spouse, sibling, parent, grandparent or descendant; spouse's sibling, parent or descendant; and the spouse of each of the foregoing persons.

79

The term “affiliation” includes (subject to certain exceptions): an employment relationship; a business or professional relationship even if not maintained on a regular basis (excluding insignificant relationships); control; and service as an office holder, excluding service as a director in a private company prior to the initial public offering of its shares if such director was appointed as a director of the private company in order to serve as an external director following the initial public offering.

The term “office holder” is defined under the Israeli Companies Law as a general manager, chief business manager, deputy general manager, vice general manager, any other person assuming the responsibilities of any of these positions regardless of that person’s title, a director and any other manager directly subordinate to the general manager.

In addition, no person may serve as an external director if that person’s positions or professional or other activities create, or may create, a conflict of interest with that person’s responsibilities as a director or otherwise interfere with that person’s ability to serve as a director or if the person is an employee of the Israel Securities Authority or of an Israeli stock exchange. A person may furthermore not continue to serve as an external director if he or she received direct or indirect compensation other than as permitted by the Israeli Companies Law and the regulations promulgated thereunder.

Following the termination of an external director’s service on a board of directors, such former external director and his or her spouse and children and other relatives may not be provided a direct or indirect benefit by the company, its controlling shareholder or any entity under its controlling shareholder’s control. This includes engagement as an officer or director of the company or a company controlled by its controlling shareholder or employment by, or provision of services to, any such company for consideration, either directly or indirectly, including through a corporation controlled by such person. This restriction extends for a period of two years with regard to the former external director and his or her spouse or child and for one year with respect to other relatives of the former external director.

If at the time at which an external director is appointed all members of the board of directors who are not controlling shareholders or relatives of controlling shareholders of the company are of the same gender, the external director to be appointed must be of the other gender. A director of one company may not be appointed as an external director of another company if a director of the other company is acting as an external director of the first company at such time.

According to the Israeli Companies Law and regulations promulgated under the Israeli Companies Law, a person may be appointed as an external director only if he or she has professional qualifications or if he or she has accounting and financial expertise (each, as defined below). At least one of the external directors must be determined by our board of directors to have accounting and financial expertise. However, as a company listed on the NASDAQ Capital Market, neither of our external directors is required to possess accounting and financial expertise as long as each possesses the requisite professional qualifications, and at least one of our other directors (i) meets the independence requirements under the Exchange Act and the NASDAQ Listing Rules for membership on the audit committee; and (ii) has accounting and financial expertise as defined under Israeli Companies Law.

A director with accounting and financial expertise is a director who, due to his or her education, experience and skills, possesses an expertise in, and an understanding of, financial and accounting matters and financial statements, such that he or she is able to understand the financial statements of the company and initiate a discussion about the presentation of financial data. A director is deemed to have professional qualifications if he or she has any of (i) an academic degree in economics, business management, accounting, law or public administration; (ii) an academic degree or has completed another form of higher education in the primary field of business of the company or in a field which is relevant to his/her position in the company; or (iii) at least five years of experience serving in one of the following capacities, or at least five years of cumulative experience serving in two or more of the following capacities: (a) a senior business management position in a company with a significant volume of business; (b) a senior position in the company’s primary field of business; or (c) a senior position in public administration or service. The board of directors is charged with determining whether a director possesses financial and accounting expertise or professional qualifications.

Our board of directors has determined that Mr. Yuval Yanai has accounting and financial expertise, as required under the Israeli Companies Law. We expect to elect an additional external director with professional qualifications at the meeting of our shareholders to be held on May 19, 2015, as required under the Israeli Companies Law.

Audit Committee

Our audit committee currently consists of Richard Stone and Yuval Yanai, an external director. Our audit committee will include an additional external director who we expect to be elected at a meeting of our shareholders to be held on May 19, 2015, 2015. Yuval Yanai serves as the Chairman of the audit committee.

Israeli Companies Law Requirements

Under the Israeli Companies Law, we are required to appoint an audit committee. The audit committee must be comprised of at least three directors, including all of the external directors, one of whom must serve as chairman of the committee. The audit committee may not include the chairman of the board, a controlling shareholder of the company or a relative of a controlling shareholder, a director employed by or providing services on a regular basis to the company, to a controlling shareholder or to an entity controlled by a controlling shareholder or a director who derives most of his or her income from a controlling shareholder.

In addition, under the Israeli Companies Law, the audit committee of a publicly traded company must consist of a majority of unaffiliated directors, within the meaning of the Israeli Companies Law. In general, an "unaffiliated director" under the Israeli Companies Law is defined as either an external director or a director who meets the following criteria:

- the audit committee has determined that he or she meets the qualifications for being appointed as an external director, except for (i) the requirement that the director be an Israeli resident (which does not apply to companies such as ours whose securities have been offered outside of Israel or are listed outside of Israel); and (ii) the requirement for accounting and financial expertise or professional qualifications; and

- he or she has not served as a director of the company for a period exceeding nine consecutive years. For this purpose, a break of less than two years in the service shall not be deemed to interrupt the continuation of the service.

NASDAQ Listing Requirements

Under the NASDAQ corporate governance rules, we are required to maintain an audit committee consisting of at least three independent directors, within the meaning of the Exchange Act and NASDAQ Listing Rules, each of whom must be able to read and understand fundamental financial statements, including the company's balance sheet, income statement and cash flow statement (and one of whom has past employment experience in finance or accounting, requisite professional certification in accounting or other comparable experience or background that leads to financial sophistication) and none of whom has participated in the preparation of our or any of our subsidiary's financial statements at any time during the prior three years.

All members of our audit committee meet the requirements for financial literacy under the applicable rules and regulations of the U.S. Securities and Exchange Commission and the NASDAQ Listing Rules. Our board of directors has determined that Mr. Yanai is an audit committee financial expert as defined by the U.S. Securities and Exchange Commission rules and has the requisite financial sophistication required by the NASDAQ Listing Rules.

Each of the members of the audit committee are "independent" as such term is defined in Rule 10A-3(b)(1) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, which is different from the general NASDAQ test for independence of board and committee members.

Audit Committee Role

Our board of directors adopted an audit committee charter, which became effective upon the listing of our securities on the NASDAQ Capital Market, which sets forth the responsibilities of the audit committee consistent with the rules of the U.S. Securities and Exchange Commission and the NASDAQ Listing Rules, as well as the requirements for audit committees under the Israeli Companies Law, including the following:

- oversight of our independent registered public accounting firm and recommending the engagement, compensation or termination of engagement of our independent registered public accounting firm to the board of directors or shareholders for their approval, as applicable, in accordance with the requirements of the Israeli Companies Law;

- recommending the engagement or termination of the person filling the office of our internal auditor; and

- recommending the terms of audit and non-audit services provided by the independent registered public accounting firm for pre-approval by our board of directors or shareholders for their approval, as applicable, in accordance with the requirements of the Israeli Companies Law.

81

Our audit committee provides assistance to our board of directors in fulfilling its legal and fiduciary obligations in matters involving our accounting, auditing, financial reporting, internal control and legal compliance functions by pre-approving the services performed by our independent accountants and reviewing their reports regarding our accounting practices and systems of internal control over financial reporting. Our audit committee also oversees the audit efforts of our independent accountants and takes those actions that it deems necessary to satisfy itself that the accountants are independent of management.

Under the Israeli Companies Law, our audit committee is responsible for:

- determining whether there are deficiencies in the business management practices of our company, including in consultation with our internal auditor or the independent auditor, and making recommendations to the board of directors to improve such practices;

- determining whether to approve certain related party transactions (including transactions in which an office holder has a personal interest) and whether such transaction is extraordinary or material under Israeli Companies Law (see “— Approval of Related Party Transactions under Israeli Law”);

- determining whether a competitive process must be implemented for the approval of certain transactions with controlling shareholders or its relative or in which a controlling shareholder has a personal interest (whether or not the transaction is an extraordinary transaction), under the supervision of the audit committee or other party determined by the audit committee and in accordance with standards determined by the audit committee, or whether a different process determined by the audit committee should be implemented for the approval of such transactions;

- determining the process for the approval of certain transactions with controlling shareholders or in which a controlling shareholder has a personal interest that the audit committee has determined are not extraordinary transactions but are not immaterial transactions;

- where the board of directors approves the working plan of the internal auditor, to examine such working plan before its submission to the board of directors and proposing amendments thereto;

- examining our internal controls and internal auditor’s performance, including whether the internal auditor has sufficient resources and tools to dispose of its responsibilities;

- examining the scope of our auditor’s work and compensation and submitting a recommendation with respect thereto to our board of directors or shareholders, depending on which of them is considering the compensation of our auditor; and

- establishing procedures for the handling of employees’ complaints as to the management of our business and the protection to be provided to such employees.

Our audit committee may not approve any actions requiring its approval (see “— Approval of Related Party Transactions under Israeli Law”), unless at the time of the approval a majority of the committee’s members are present, which majority consists of unaffiliated directors including at least one external director.

Compensation Committee and Compensation Policy

Our compensation committee currently consists of Richard Stone and Yuval Yanai, an external director. Our compensation committee will include an additional external director who we expect to be elected at a meeting of our shareholders to be held on May 19, 2015, 2015. Yuval Yanai serves as the Chairman of the compensation committee.

Israeli Companies Law Requirements

Under the Israeli Companies Law, the board of directors of a public company must appoint a compensation committee. The compensation committee must be comprised of at least three directors, including all of the external directors, who must constitute a majority of the members of the compensation committee. However, subject to certain exceptions, Israeli companies whose securities are traded on certain U.S. stock exchanges, such as the NASDAQ Capital Market, that do not have a controlling shareholder, do not have to meet such majority requirement, provided that the compensation committee meets other Israeli Companies Law composition requirements and the requirements of the jurisdiction where the company's securities are traded. Each compensation committee member that is not an external director must be a director whose compensation does not exceed an amount that may be paid to an external director under regulations promulgated under the Israeli Companies Law. The compensation committee is subject to the same Israeli Companies Law restrictions as the audit committee as to who may not be a member of the committee. See "— Audit Committee — Israeli Companies Law Requirements."

NASDAQ Listing Requirements

Under the NASDAQ corporate governance rules, we are required to maintain a compensation committee consisting of at least two directors, each of whom is an independent director within the meaning of the NASDAQ Listing Rules.

Compensation Committee Role

Our board of directors adopted a compensation committee charter which became effective upon the listing of our shares on the NASDAQ Capital Market, which sets forth the responsibilities of the compensation committee consistent with the NASDAQ Listing Rules and the requirements for compensation committees under the Israeli Companies Law, including the following:

- recommending to the board of directors for its approval (i) a compensation policy; (ii) whether a compensation policy should continue in effect, if the then-current policy has a term of greater than three years (approval of either a new compensation policy or the continuation of an existing compensation policy must in any case occur every three years); and (iii) periodic updates to the compensation policy. See "— Compensation Policy." In addition, the compensation committee is required to periodically examine the implementation of the compensation policy;

- the approval of the terms of employment and service of office holders (including determining whether the compensation terms of a candidate for chief executive officer of the company need not be brought to approval of the shareholders); and

- reviewing and approving grants of options and other incentive awards to persons other than office holders to the extent such authority is delegated by our board of directors, subject to the limitations on such delegation as provided in the Israeli Companies Law.

Compensation Policy

Under the Israeli Companies Law, the duties of the compensation committee include the recommendation to the company's board of directors of a policy regarding the terms of engagement of office holders, as such term is defined in the Israeli Companies Law, to which we refer to as a compensation policy, and any extensions and updates thereto. The compensation policy must be adopted by the company's board of directors, after considering the recommendations of the compensation committee, and will need to be brought for approval by the company's shareholders, which approval requires a Special Approval for Compensation (as defined below under "— Approval of Related Party Transactions under Israeli Law — Disclosure of Personal Interests of an Office Holder and Approval of Certain Transactions").

We are required to adopt a compensation policy within nine months following the listing of our securities on the NASDAQ Capital Market.

The compensation policy must serve as the basis for decisions concerning the financial terms of employment or engagement of office holders, including exculpation, insurance, indemnification or any monetary payment or obligation of payment in respect of employment or engagement. The compensation policy must relate to certain factors, including advancement of the company's objectives, the company's business plan and its long-term strategy, and creation of appropriate incentives for office holders, and must consider (among other things) the company's risk management, size and the nature of its operations. The compensation policy must also consider the following additional factors:

- the knowledge, skills, expertise and accomplishments of the relevant office holder;
- the office holder’s roles and responsibilities and prior compensation agreements with him or her;
- the relationship between the terms offered and the average compensation of the other employees of the company (including any employees employed through manpower companies);
- the impact of disparities in salary upon work relationships in the company;
- the possibility of reducing variable compensation at the discretion of the board of directors, and the possibility of setting a limit on the exercise value of non-cash variable equity-based compensation; and
- as to severance compensation, the period of employment or service of the office holder, the terms of his or her compensation during such period, the company’s performance during such period, the person’s contribution towards the company’s achievement of its goals and the maximization of its profits, and the circumstances under which the person is leaving the company.

The compensation policy must also include the following principles:

- the link between variable compensation and long-term performance and measurable criteria;
- the relationship between variable and fixed compensation, and the ceiling for the value of variable compensation;
- the conditions under which an office holder would be required to repay compensation paid to him or her if it was later shown that the data upon which such compensation was based was inaccurate and was required to be restated in the company's financial statements;
- the minimum holding or vesting period for variable, equity-based compensation; and
- maximum limits for severance compensation.

Internal Auditor

Under the Israeli Companies Law, the board of directors of an Israeli public company must appoint an internal auditor recommended by the audit committee. An internal auditor may not be:

- a person (or a relative of a person) who holds more than 5% of the company's outstanding shares or voting rights;
- a person (or a relative of a person) who has the power to appoint a director or the general manager of the company;
- an office holder, within the meaning of the Israeli Companies Law (including a director and the general manager) of the company (or a relative thereof); or
- a member of the company's independent accounting firm, or anyone on his or her behalf.

The role of the internal auditor is to examine, among other things, our compliance with applicable law and orderly business procedures. The audit committee is required to oversee the activities and to assess the performance of the internal auditor as well as to review the internal auditor's work plan. We have appointed Ms. Dana Gottesman Erlich of BDO as our internal auditor.

Approval of Related Party Transactions under Israeli Law

Fiduciary Duties of Directors and Executive Officers

The Israeli Companies Law codifies the fiduciary duties that office holders owe to a company. Each person listed in the table under Item 6A "Directors, Senior Management and Employees—Directors and senior management" is an office holder under the Israeli Companies Law.

An office holder's fiduciary duties consist of a duty of care and a duty of loyalty. The duty of care requires an office holder to act with the level of care 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 on the advisability of a given action brought for his or her approval or performed by virtue of his or her position; and
- all other important information pertaining to any such action.

The duty of loyalty requires an office holder to act in good faith and in the best interests of the company, and includes, among other things, the duty to:

- refrain from any conflict of interest between the performance of his or her duties to the company and his or her other duties or personal affairs;
- refrain from any activity that is competitive with the company;
- refrain from exploiting any business opportunity of the company to receive a personal gain for himself or herself or others; and
- disclose to the company any information or documents relating to the company's affairs which the office holder received as a result of his or her position as an office holder.

We may approve an act specified above which would otherwise constitute a breach of the office holder's duty of loyalty, provided that the office holder acted in good faith, the act or its approval does not harm the company and the office holder discloses his or her personal interest a sufficient amount of time before the date for discussion of approval of such act.

Disclosure of Personal Interests of an Office Holder and Approval of Certain Transactions

Disclosure of Personal Interests of an Office Holder

The Israeli Companies Law requires that an office holder promptly disclose to the company any “personal interest” that he or she may be aware of and all related material information or documents concerning any existing or proposed transaction with the company. An interested office holder’s disclosure must be made promptly and in any event no later than the first meeting of the board of directors at which the transaction is considered. A personal interest includes an interest of any person in an act or transaction of a company, including a personal interest of such person’s relative or of a corporate entity in which such person or a relative of such person holds 5% or more of the 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, but excluding a personal interest arising from one’s ownership of shares in the company. A personal interest includes the personal interest of a person for whom the office holder holds a voting proxy or the personal interest of the office holder with respect to his or her vote on behalf of a person for whom he or she holds a proxy even if such shareholder has no personal interest in the matter. An office holder is not, however, obliged to disclose a personal interest if it derives solely from the personal interest of his or her relative in a transaction that is not considered an extraordinary transaction. Under the Israeli Companies Law, an extraordinary transaction is defined as any of the following: a transaction other than in the ordinary course of business; a transaction that is not on market terms; or a transaction that may have a material impact on a company’s profitability, assets or liabilities.

Generally, a person who has a personal interest in a matter which is considered at a meeting of the board of directors or the audit committee may not be present at such a meeting or vote on that matter unless, with respect to an office holder, the chairman of the audit committee or board of directors (as applicable) determines that the office holder should be present in order to present the transaction that is subject to approval. If a majority of the members of the audit committee or the board of directors (as applicable) has a personal interest in the approval of a transaction, then all directors may participate in discussions of the audit committee or the board of directors (as applicable) on such transaction and the voting on approval thereof. If a majority of the members of the board of directors has a personal interest in the approval of a transaction, shareholder approval is also required for such transaction.

Approval of Transactions with Officer Holders

If it is determined that an office holder has a personal interest in a transaction that is not an extraordinary transaction, approval by the board of directors is required for the transaction, unless the company’s articles of association provide for a different method of approval. Further, so long as an office holder has disclosed his or her personal interest in a transaction, the board of directors may approve an act by the office holder that would otherwise be deemed a breach of his or her duty of loyalty, provided that the transaction is in the company’s best interest and the office holder acted in good faith. An extraordinary transaction in which an office holder has a personal interest requires approval first by the company’s audit committee and subsequently by the board of directors.

Compensation of Officers Other than the Chief Executive Officer

The compensation of an office holder (other than the chief executive officer) who is not a director requires approval first by the company’s compensation committee, then by the company’s board of directors, according to the company’s compensation policy. In special circumstances the compensation committee and board of directors may approve a compensation arrangement that is inconsistent with the company’s compensation policy, provided that they have considered the same considerations and matters required for the approval of a compensation policy in accordance with the Israeli Companies Law and such arrangement must be approved by a majority vote of the shares present and voting at a shareholders meeting on the matter, provided that either: (i) such majority includes at least a majority of the shares held by all shareholders who are not controlling shareholders and shareholders who do not have a personal interest in such compensation arrangement present and voting on the matter, excluding abstentions; or (ii) the total number of shares of non-controlling shareholders and shareholders who do not have a personal interest in the matter and who vote against the matter does not exceed 2% of the company's aggregate voting rights. We refer to this as the Special Approval for Compensation. However, if the shareholders of the company do not approve a compensation arrangement with an executive officer that is inconsistent with the company's compensation policy, the compensation committee and board of directors may, in special circumstances, override the shareholders' decision if each of the compensation committee and the board of directors discuss the arrangement again, analyze the shareholders' objection and provide detailed reasons for their decision.

Compensation of Chief Executive Officer

The compensation of a public company's chief executive officer requires the approval of first, the company's compensation committee; second, the company's board of directors and third (except for a number of exceptions), the company's shareholders by the Special Approval for Compensation. However, if the shareholders of the company do not approve a compensation arrangement with a chief executive officer, the compensation committee and board of directors may, in special circumstances, override the shareholders' decision if each of the compensation committee and the board of directors discuss the arrangement again, analyze the shareholders' objection and provide detailed reasons for their decision. The compensation committee and board of directors approval should be in accordance with the company's compensation policy; however, in special circumstances, they may approve compensation terms of a chief executive officer that are inconsistent with such policy provided that they have considered the same considerations and matters required for the approval of a compensation policy in accordance with the Israeli Companies Law and that shareholder approval was obtained by the Special Approval for Compensation.

Compensation of Directors

Arrangements regarding the compensation of a director require the approval of the compensation committee, board of directors and (except for a number of exceptions) shareholders by ordinary majority, in that order. The approval of the compensation committee and board of directors must be in accordance with the compensation policy. In special circumstances the compensation committee and board of directors may approve a compensation arrangement that is inconsistent with the company's compensation policy, provided that they have considered the same considerations and matters required for the approval of a compensation policy in accordance with the Israeli Companies Law and that shareholder approval was obtained by the Special Approval for Compensation.

With respect to compensation of an officer (including chief executive officer) or director who is also a controlling shareholder, see "— Disclosure of Personal Interests of Controlling Shareholders and Approval of Certain Transactions."

Disclosure of Personal Interests of Controlling Shareholders and Approval of Certain Transactions

Pursuant to Israeli law, the disclosure requirements regarding personal interests that apply to directors and executive officers also apply to a controlling shareholder of a public company. In the context of a transaction involving a shareholder of the company, a controlling shareholder also includes a shareholder who holds 25% or more of the voting rights in the company if no other shareholder holds more than 50% of the voting rights in the company. For this purpose, the holdings of all shareholders who have a personal interest in the same transaction will be aggregated. Extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, including a private placement in which a controlling shareholder has a personal interest, and the terms of engagement with a controlling shareholder or a relative thereof, directly or indirectly (including through a corporation controlled by a controlling shareholder), for the provision of services to the company and his or her terms of employment or service as an office holder or employment as other than an office holder, require the approval of each of (i) the audit committee or the compensation committee with respect to the terms of service or employment by the company as an office holder, an employee or service provider; (ii) the board of directors; and (iii) the shareholders, in that order. The shareholder approval requires one of the following, which we refer to as a Special Majority:

- at least a majority of the shares held by all shareholders who do not have a personal interest in the transaction and who are present and voting on the matter approves the transaction, excluding abstentions; or

- the shares voted against the transaction by shareholders who have no personal interest in the transaction and who are present and voting at the meeting do not exceed 2% of the voting rights in the company.

Each shareholder voting on the approval of an extraordinary transaction with a controlling shareholder must inform the company prior to voting whether or not he or she has a personal interest in the approval of the transaction, otherwise, the shareholder is not eligible to vote on the proposal and his or her vote will not be counted for purposes of the proposal.

To the extent that any such transaction with a controlling shareholder is for a period of more than three years, approval is required once every three years, unless, with respect to any such extraordinary transactions, the audit committee determines that the duration of the transaction is reasonable given the related circumstances.

The compensation committee and board approval for arrangements regarding the terms of service or employment of a controlling shareholder must be in accordance with the company's compensation policy. In special circumstances the compensation committee and board of directors may approve a compensation arrangement that is inconsistent with the company's compensation policy, provided that they have considered the same considerations and matters required for the approval of a compensation policy in accordance with the Israeli Companies Law and that shareholder approval was obtained by the Special Majority.

Pursuant to regulations promulgated under the Israeli Companies Law, certain transactions with a controlling shareholder or his or her relative, or with directors, relating to terms of service or employment that would otherwise require approval of a company's shareholders may be exempt from shareholder approval upon certain determinations of the audit committee and board of directors. Under these regulations, a shareholder holding at least 1% of the issued share capital or voting power of the company may require, within 14 days of the publication or announcement of such determinations, that despite such determinations by the audit committee and the board of directors, such transaction will require shareholder approval under the same majority requirements that would otherwise apply to such transactions.

In addition, disclosure of a personal interest in a private placement of a public company (including disclosure of any material fact or document) is required by (i) a shareholder holding 5% or more of the company's issued and outstanding capital or its voting rights whose holdings will increase as result of the private placement and a shareholder who will hold 5% or more of the company's issued and outstanding capital or its voting rights as a result of the private placement, if 20% or more of the company's outstanding share capital prior to the private placement is issued in the private placement and the payment for which is not only in cash or listed securities or the transaction is not on market terms; and (ii) a person or entity that will become a controlling shareholder as a result of the private placement.

Shareholder Duties

Pursuant to the Israeli Companies Law, a shareholder has a duty to act in good faith and in a customary manner toward the company and other shareholders and to refrain from abusing his or her power in the company, including, among other things, in voting at a meeting of shareholder with respect to the following matters:

- an amendment to the company's articles of association;
- an increase of the company's authorized share capital;
- a merger; and
- the approval of related party transactions and acts of office holders that require shareholder approval.

In addition, a shareholder has a general duty to refrain from discriminating against other shareholders.

Certain shareholders have a duty of fairness toward the company. These shareholders include any controlling shareholder, any shareholder who knows that he or she has the power to determine the outcome of a shareholder vote and any shareholder who has the power to appoint or to prevent the appointment of an office holder of the company or other power towards the company. The Israeli Companies Law does not define the substance of the duty of fairness, except to state that the remedies generally available upon a breach of contract will also apply in the event of a breach of the duty to act with fairness.

Exculpation, Insurance and Indemnification of Directors and Officers

Under the Israeli Companies Law, a company may not exculpate an office holder from liability for a breach of the duty of loyalty. An Israeli company may exculpate an office holder in advance from liability to the company, in whole or in part, for damages caused to the company as a result of a breach of duty of care, but only if a provision authorizing such exculpation is included in its articles of association. Our amended articles of association include such a provision, to the fullest extent permitted by law. The company may not exculpate in advance a director from liability arising out of a prohibited dividend or other distribution to shareholders.

Under the Israeli Companies Law and the Israeli Securities Law, 5728-1968, or the Israeli Securities Law, a company may indemnify an office holder in respect of the following liabilities and expenses incurred for acts performed by him or her as an office holder, either pursuant to an undertaking made in advance of any such event or following an event, provided its articles of association include a provision authorizing such indemnification:

- a financial liability imposed on him or her in favor of another person pursuant to a judgment, including a settlement or arbitrator's award approved by a court. However, if an undertaking to indemnify an office holder with respect to such liability is provided in advance, then such an undertaking must be limited to events which, in the opinion of the board of directors, can be foreseen based on the company's activities when the undertaking to indemnify is given, and to an amount or according to criteria determined by the board of directors as reasonable under the circumstances, and such undertaking shall detail the abovementioned foreseen events and amount or criteria;

87

- reasonable litigation expenses, including attorneys' fees, incurred by the office holder (1) as a result of an investigation or proceeding instituted against him or her by an authority authorized to conduct such investigation or proceeding, provided that (i) no indictment was filed against such office holder as a result of such investigation or proceeding; and (ii) no financial liability was imposed upon him or her as a substitute for the criminal proceeding as a result of such investigation or proceeding or, if such financial liability was imposed, it was imposed with respect to an offense that does not require proof of criminal intent; and (2) in connection with a monetary sanction;

- reasonable litigation expenses, including attorneys' fees, incurred by the office holder or imposed by a court in proceedings instituted against him or her by the company, on its behalf, or by a third party, or in connection with criminal proceedings in which the office holder was acquitted, or as a result of a conviction for an offense that does not require proof of criminal intent; and

- expenses, including reasonable litigation expenses and legal fees, incurred by an office holder in relation to an administrative proceeding instituted against such office holder, or certain compensation payments made to an injured party imposed on an office holder by an administrative proceeding, pursuant to certain provisions of the Israeli Securities Law.

Under the Israeli Companies Law and the Israeli Securities Law, a company may insure an office holder against the following liabilities incurred for acts performed by him or her as an office holder if and to the extent provided in the company's articles of association:

- a breach of the duty of loyalty to the company, provided that the office holder acted in good faith and had a reasonable basis to believe that the act would not harm the company;

- a breach of the duty of care to the company or to a third party, to the extent such a breach does not arise out of the negligent conduct of the office holder;

- a financial liability imposed on the office holder in favor of a third party; and

- expenses, including reasonable litigation expenses and legal fees, incurred by an office holder in relation to an administrative proceeding instituted against such office holder or certain compensation payments to an injured party imposed on an office holder by an administrative proceeding, pursuant to certain provisions of the Securities Law.

Under the Israeli Companies Law, a company may not indemnify, exculpate or enter into an insurance contract for office holder liability, for any of the following:

- a breach of the duty of loyalty, except for indemnification and insurance for a breach of the duty of loyalty to the company to the extent that the office holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the company;

- a breach of the duty of care committed intentionally or recklessly, excluding a breach arising out of the negligent conduct of the office holder;

- an act or omission committed with intent to derive illegal personal benefit; or
- a fine, monetary sanction or forfeit levied against the office holder.

Under the Israeli Companies Law, exculpation, indemnification and insurance of office holders in a public company must be approved by the compensation committee and the board of directors and, with respect to the chief executive officer or a director or under certain circumstances, also by the shareholders. See "— Approval of Related Party Transactions under Israeli Law."

Our amended articles of association permit us to exculpate, indemnify and insure our office holders to the fullest extent permitted under the Israeli Companies Law and the Israeli Securities Law. We have obtained directors' and officers' liability insurance for the benefit of our office holders and intend to continue to maintain such coverage and pay all premiums thereunder to the fullest extent permitted by the Israeli Companies Law.

We have entered into indemnification and exculpation agreements with each of our current officers and directors exculpating them from a breach of their duty of care to us to the fullest extent permitted by the Israeli Companies Law and undertaking to indemnify them to the fullest extent permitted by the Israeli Companies Law and the Israeli Securities Law, to the extent that these liabilities are not covered by insurance. This indemnification is limited to events determined as foreseeable by our board of directors based on our activities, as set forth in the indemnification agreements. Under such indemnification agreements, the maximum aggregate amount of indemnification that we may pay to any and all of our currently serving or future officers and directors together may not exceed the higher of $5 million and 25% of our shareholders equity according to our most recent financial statements at the time of payment.

D. Employees

As of April 27, 2015, we had 39 employees and independent contractors, of whom 6 persons were in administrative, accounting and human resources and 33 persons were in research and development. As of December 31, 2014, we had 36 employees and independent contractors, of whom 6 persons were in administrative, accounting and human resources and 30 persons were in research and development. As of December 31, 2013, we had 34 employees and independent contractors, of whom 6 persons were in administrative, accounting and human resources and 28 persons were in research and development. As of December 31, 2012, we had 36 employees and independent contractors, of whom 6 persons were in administrative, accounting and human resources and 30 persons were in research and development.

Under Israeli law, we and our employees are subject to protective labor provisions, including the length of the workday, minimum wages for employees, annual leave, sick pay, determination of severance pay and advance notice of termination of employment, as well as procedures for hiring and dismissing employees and equal opportunity and anti-discrimination laws. While none of our employees is party to any collective bargaining agreements, orders issued by the Israeli Ministry of Economy (formerly named the Ministry of Industry, Trade and Labor) may make certain industry-wide collective bargaining agreements applicable to us. These agreements affect matters such as the length of the workday and week, recuperation pay, travel expenses and pension rights. We have never experienced labor-related work stoppages and believe that our relationships with our employees are good.

Israeli law generally requires the payment of severance compensation by employers upon the retirement, death or dismissal of an employee. We fund our ongoing severance obligations by making monthly payments to insurance policies. All of our current employees have agreed that upon termination of their employment, they will be entitled to receive only the amounts accrued in the insurance policies with respect to severance pay. For information regarding the severance pay to which our chief executive officer would be entitled upon termination of his employment, see Item 6B "Directors, Senior Management and Employees—Compensation—Employment Agreements with Executive Officers." Furthermore, Israeli employees and employers are required to pay predetermined sums to the National Insurance Institute, which is similar to the U.S. Social Security Administration. These amounts also include payments for national health insurance.

In addition, we have various consulting arrangements with experts in regulatory, research and clinical matters.

E. Share Ownership

Share Ownership of Executive Officers and Directors

For information concerning the beneficial ownership of our ordinary shares by our executive officers and directors, see the table in Item 7A. "Major Shareholders and Related Party Transactions—Major shareholders." As of December 31, 2014, options to purchase 1,023,961 ordinary shares granted to our directors and executive officers were outstanding under our 2006 Unit Option Plan at a weighted average exercise price of approximately $4.26 per share.

2006 Unit Option Plan

In connection with the transfer of all of the business operations and substantially all of the assets of Check-Cap LLC to us in 2009, we assumed the Check-Cap LLC 2006 Unit Option Plan, or the 2006 Unit Option Plan. The 2006 Unit Option Plan is our sole equity incentive plan. Under the 2006 Unit Option Plan, we are permitted to grant options to purchase our ordinary shares to our employees, consultants and service providers. For the purpose of the 2006 Unit Option Plan: (i) an "employee" means any person, including officers, directors or affiliates who are employed by us or by our affiliates; (ii) a "consultant" means any person who is engaged by us to render consulting or advisory services to us or to any of our entities provided that such services are provided in good faith and are (a) not in connection with the offer or sale of our securities in a capital raising transaction and (b) not directly or indirectly promoting or maintaining a market for our securities; (iii) a “service provider” means an employee, director, supplier or officer holder as defined in the Israeli Companies Law; and (iv) an “affiliate” means any entity which is directly or indirectly our parent or subsidiary.

Our board of directors has the authority to administer the 2006 Unit Option Plan and to grant options under the 2006 Unit Option Plan, including, without limitation, the authority to determine the persons to whom options shall be granted, the number of shares subject to each option, the time or times at which the options will be granted, restrictions on the transferability of the options, and the schedule and conditions on which such options may be exercised.

The 2006 Unit Option Plan provides for the grant of options pursuant to Sections 102 and 3(i) of the Israeli Income Tax Ordinance [New Version], 5721-1961, which we refer to as the Tax Ordinance. The 2006 Unit Option Plan provides that Section 102 options may be granted only to employees who are Israeli residents and who do not own interests possessing more than 10% of the total combined voting power of all classes of our equity or the equity of our affiliates immediately before such option is granted. Options granted to optionees who are Israeli residents that are not intended to qualify as Section 102 Options are granted under Section 3(i) of the Ordinance, which does not provide for similar tax benefits, and are referred to as Section 3(i) options. The 2006 Unit Option Plan was submitted for the approval of the Israeli Tax Authority, which we refer to as the ITA, as required by applicable law.

Section 102 of the Tax Ordinance allows employees, directors and officers, who are not controlling shareholders and who are Israeli residents, to receive favorable tax treatment for compensation granted in the form of shares or options. Section 102 of the Ordinance includes two alternatives for tax treatment involving the issuance of options or shares to a trustee for the benefit of the grantees, which are referred to as the capital gains track and the ordinary income track, and also includes an additional alternative for the issuance of options or shares issued directly to the grantee. Under the 2006 Unit Option Plan, Section 102 options may be designated as options granted under any one of the foregoing alternatives and such designation shall be included in the option agreement for the option award.

Options granted to date to employees under the 2006 Unit Option Plan were granted under Section 102(b)(2) of the Tax Ordinance, which permits the issuance to a trustee under the "capital gains track." In order to comply with the terms of the capital gains track, all options granted under a specific plan and subject to the provisions of Section 102 of the Tax Ordinance, as well as the shares issued upon exercise of such options and other shares received subsequently following any realization of rights with respect to such options, such as share dividends and share splits, must be registered in the name of a trustee selected by the board of directors and held in trust for the benefit of the relevant employee, director or officer for a period of two years from the date of the grant. However, under this track, we are not allowed to deduct an expense with respect to the issuance of the options or shares.

The exercise price of an option granted under the 2006 Unit Option Plan is determined by the board of directors or a committee appointed by it. The first option grant to an employee generally vests over a period of three years and nine months commencing on the date of grant, such that 8.33% vest on the first anniversary of the date of grant and an additional 8.33% vest on each subsequent three-month period thereafter, for 33 months. Additional option grants to an employee generally vest over a period of three years commencing on the three months anniversary of the date of grant, such that 8.33% is fully vested on the date of grant and an additional 8.33% vest on each subsequent three-month period thereafter, for 33 months. Options granted under the 2006 Unit Option Plan generally expire within ten years of the grant date or upon the earlier termination of employment of, or services provided by, the optionee, as applicable, subject to the extended period of exercisability upon termination of employment or services, as applicable. Our board of directors may determine a shorter exercisability period for an option at the time of grant of such option. Upon termination of the employment of or services rendered by an optionee, as applicable (other than for cause, disability or death), generally vested options may be exercised within three months after the date of such termination or within such shorter time period (not to be less than 30 days) or such longer time period (not to exceed five years) as our board of directors or a committee appointed by it shall determine, but in any event no later than the expiration date of the options. If the employment or services of the optionee are terminated because of death or disability (or if the optionee dies within three months after termination of employment or services other than for cause), the optionee's options may be exercised by the optionee or the optionee's legal representative or authorized assignee to the extent exercisable on the date of such termination or within 12 months thereafter or as otherwise determined by the board of directors or a committee appointed by it. If the employment or services of the optionee are terminated for cause, all outstanding options will, to the extent not previously exercised, be of no force and effect as of the date of termination, unless otherwise determined by the board of directors or a committee appointed by it.

In the event of a merger or consolidation of our company in which our company is not the surviving entity, an acquisition of all or substantially all of the outstanding capital of our company or the sale of all or substantially all of our assets, the optionee shall be provided the opportunity to (i) exercise his or her options in connection with the transaction and to receive in the transaction such consideration as the holder of ordinary shares shall receive in the transaction; or (ii) retain his or her options or receive a substitute option from the surviving company, if any.

As of December 31, 2014, we had granted options to purchase an aggregate 1,431,089 ordinary shares under the 2006 Unit Option Plan, of which options to purchase an aggregate 1,745 ordinary shares had been exercised into our ordinary shares, options to purchase an aggregate 129,832 ordinary shares had been forfeited without having been exercised and options to purchase an aggregate 1,299,514 ordinary shares were outstanding at a weighted average exercise price of approximately $2.73 per share. As of such date, 36,444 ordinary shares were available for future grants under the 2006 Unit Option Plan.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major shareholders

The following table sets forth information with respect to the beneficial ownership of our ordinary shares as of April 24, 2015 by (i) each person or entity known to us to beneficially own more than 5% of our outstanding ordinary shares; (ii) each of our executive officers and directors individually; and (iii) all of our executive officers and directors as a group.

The percentage of beneficial ownership of our ordinary shares is based on 10,789,673 ordinary shares outstanding as of April 24, 2015. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting power or investment power with respect to securities. All options and warrants currently exercisable or exercisable into ordinary shares within 60 days of April 24, 2015 are deemed to be outstanding and beneficially owned by the shareholder holding such options or warrants for the purpose of computing the number of shares beneficially owned by such shareholder. Such shares are also deemed outstanding for purposes of computing the percentage ownership of the person holding the option or warrant. They are not, however, deemed to be outstanding and beneficially owned for the purpose of computing the percentage ownership of any other shareholder.

Except as indicated in the footnotes below, we believe that the persons named in the table below have sole voting and investment power with respect to the ordinary shares indicated in the table as being beneficially owned by them.

As of April 24, 2015, based on information provided to us by our transfer agent in the United States and other information reasonably available to us, we had 47 holders of record of our ordinary shares in the United States. Such holders of record held, as of that date, 40.18% of our outstanding ordinary shares. The number of record holders is not representative of the number of beneficial holders of our ordinary shares, as 21.39% of our outstanding ordinary shares are recorded in the name of Cede & Co. as nominee for the Depository Trust Company, in whose name all shares held in "street name" are held in the United States.

	Ordinary Shares Beneficially Owned		
Name of Beneficial Owner	Number	Percent	
5% or Greater Shareholders (other than directors and executive officers)			
Pontifax Funds(1)	2,374,335.5	20.16	%
Shanghai Fosun Pharmaceutical Group Co. Ltd.(2)	1,886,152.5	15.71	%
Quant Global Capital Advisors, LLC.(3)	1,249,999.5	11.15	%
Docor International B.V.(4)	658,139.5	6.00	%
Yoav and Sigalit Kimchy(5)	746,490	6.85	%
Directors and Executive Officers			
Guy Neev(6)	663,936	5.93	%
Lior Torem(7)	138,061	1.27	%
Yoav Kimchy(5)	746,490	6.85	%
Alex Ovadia	*	*	
Tomer Kariv(1)	2,374,335.5	20.16	%
Walter L. Robb(8)	390,309	3.61	%
Richard Stone	*	*	
Alon Dumanis(4)	663,180.5	6.05	%

Steven Hanley	*	*	
Yuval Yanai	*	*	
XiangQian (XQ) Lin(9)	255,041.5	2.34	%
All director and executive officers as a group (11 persons)(10)	5,371,307.5	47.50	%

* Less than 1% of our ordinary shares.

(1) Includes ordinary shares directly held by Pontifax (Cayman) II, L.P., Pontifax (Israel) II, L.P. and Pontifax (Israel) II—Individual Investors, L.P (collectively, the "Pontifax Funds"). Pontifax Management II L.P. is the general partner of the Pontifax Funds and Pontifax Management 2 G.P. (2007) Ltd. is the general partner of Pontifax Management II L.P. Tomer Kariv and Ran Nussbaum are Managing Partners of each of the Pontifax Funds and Pontifax Management II L.P. and are directors of Pontifax Management 2 G.P. (2007) Ltd. and share voting and dispositive power with respect to the shares. The principal business office of each of the foregoing entities and persons is 8 Hamanofim Street, Beit Ofek, Herzliya Pituach, Israel. Includes (i) 1,385,610 outstanding ordinary shares; (ii) 749,334 ordinary shares subject to warrants that are currently exercisable; and (iii) 239,391.5 ordinary shares issuable upon exercise of the Series A Warrants, which are exercisable within 60 days of this table.

(2) Includes: (i) 666,667 outstanding ordinary shares; (ii) 886,152 ordinary shares subject to warrants that are currently exercisable; and (iii) 333,333.5 ordinary shares issuable upon exercise of the Series A Warrants, which are exercisable within 60 days of this table.

(3) Based solely on information contained in a Schedule 13G filed by Quant Global Capital Advisors, LLC with the SEC on March 6, 2015. Includes: (i) 833,333 outstanding ordinary shares; and (ii) 416,666.5 ordinary shares issuable upon exercise of the Series A Warrants, which are exercisable within 60 days of this table.

(4) Includes: (i) 484,871 outstanding ordinary shares directly held by Docor International B.V., or Docor; (ii) 110,769 ordinary shares subject to warrants that are currently exercisable directly held by Docor; and (iii) 62,499.5 ordinary shares issuable upon exercise of the Series A Warrants, which are exercisable within 60 days of this table, directly held by Docor. Docor is a wholly-owned subsidiary of Crecor B.V. Each of Crecor B.V. and Alon Dumanis may be deemed to be the beneficial owner of the aggregate ordinary shares beneficially owned by Docor. Alon Dumanis disclaims beneficial ownership of the ordinary shares. In addition, Alon Dumanis directly holds options to purchase 5,041 ordinary shares that are exercisable within 60 days of this table.

(5) Includes: (i) 319,553 ordinary shares are directly held by Yoav Kimchy; (ii) 107,384 ordinary shares subject to options held by Yoav Kimchy that are currently exercisable; and (iii) 319,553 ordinary shares are directly held by Sigalit Kimchy. Yoav Kimchy, our chief technology officer and a director, and Sigalit Kimchy are husband and wife.

(6) Includes: (i) 265,928 outstanding ordinary shares; and (ii) 398,008 ordinary shares subject to options that are currently exercisable.

(7) Includes: (i) 41,539 outstanding ordinary shares; and (ii) 96,522 ordinary shares subject to options that that are currently exercisable.

(8) Includes: (i) 356,075 outstanding ordinary shares held by Counterpoint Ventures Fund LP and Counterpoint Ventures Fund II LP (together, the “Counterpoint Funds”); (ii) 21,250 ordinary shares issuable upon exercise of the Series A Warrants, which are exercisable within 60 days of this table, held by the Counterpoint Funds; and (iii) 12,984 ordinary shares subject to options that are currently exercisable or exercisable within 60 days of this table, held directly by Mr. Robb. Mr. Robb has advised us that the general partner of each of the Counterpoint Funds is Lion Development LLC, which is 99% controlled by Mr. Walter Robb, and as such, Walter Robb possesses the ultimate voting and investment power over the shares beneficially owned by the Counterpoint Ventures entities.

(9) Includes: (i) 166,667 outstanding ordinary shares held by Esco Ventures Pte Ltd.; (ii) 83,333.5 ordinary shares issuable upon exercise of the Series A Warrants, which are exercisable within 60 days of this table, held by Esco Ventures Pte Ltd.; and (iii) 5,041 ordinary shares subject to options that are exercisable within 60 days of this table, held directly by XiangQian (XQ) Lin. Mr. Lin has advised us that Esco Ventures Pte Ltd. is wholly-owned by him and that he possesses the ultimate voting and investment power over the shares beneficially owned by Esco Ventures Pte Ltd.

(10) See footnotes (1)-(9) for certain information regarding beneficial ownership.

None of our shareholders have voting rights different from the voting rights of other shareholders. To the best of our knowledge, we are not owned or controlled, directly or indirectly, by another corporation or by any government. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

B. Related Party Transactions

Other than the executive and director compensation and indemnification and exculpation arrangements discussed in Item 6 “Directors, Senior Management and Employees,” and the transaction described below, we have not entered into any transactions since January 1, 2012 to which we have been or are a party to and in which any of our directors, executive officers or holders of more than 5% of our share capital, or any immediate family member of, or person sharing the household with, any of these individuals or entities, had or will have a direct or indirect material interest.

Participation in Our Initial Public Offering

Certain of our shareholders who held our ordinary shares prior to our initial public offering, including affiliates of certain of our directors, purchased units, in our initial public offering that was consummated on February 24, 2015, each unit consisting of one ordinary share and one-half of a Series A Warrant to purchase one ordinary share, issued together with Long Term Incentive Warrants, at the price paid by the public ($6 per unit), in the following amounts: Pontifax Funds purchased 125,000 units (issued together with 187,500 Long Term Incentive Warrants) and Docor International B.V. purchased 41,666 units (issued together with 62,499 Long Term Incentive Warrants). In addition, XiangQian (XQ) Lin, who was elected as a director as of the consummation of our initial public offering, purchased in our initial public offering 166,667 units (issued together with 250,000.5 Long Term Incentive Warrants), at the price paid by the public ($6 per unit). The underwriters received the same underwriting discount on the units purchased by these persons and entities as they did on the other units sold to the public in our initial public offering.

92

Credit Line Agreement; Private Placement

On August 20, 2014, we entered into a certain credit line agreement, pursuant to which we obtained a credit line in an aggregate principal amount of $12.0 million from certain lenders and existing shareholders, including Pontifax, Docor International B.V. and Counterpoint Ventures Fund II LP. The credit line amount was deposited in an escrow account at the closing, which was consummated on October 14, 2014. Under the terms of the credit line agreement, we directed that the full credit line amount be invested in the private placement that was consummated simultaneously with our initial public offering that was consummated on February 24, 2015. We issued to the lenders a total of 2,000,000 units, each consisting of one ordinary share and one half of a Series A Warrant to purchase one ordinary share, together with 3,000,000 long term incentive warrants, for aggregate gross proceeds of $12,000,000. The Pontifax Funds, Docor International, B.V and Counterpoint Ventures Fund II LP acquired 250,001, 83,334 and 42,500 units, respectively, in the private placement for an aggregate purchase price of $1,500,000, $500,000 and $255,000, respectively. For additional information regarding the private placement, see Item 5B "Operating and Financial Review and Prospects — Liquidity and Capital Resources-Sources of Liquidity."

Pontifax Warrants

On October 14, 2014, we issued warrants to purchase an aggregate of 221,539 of our ordinary shares at an exercise price of NIS 0.20 per share, or the Pontifax Warrants, to the Pontifax Funds in consideration of their commitment to provide to us, for no consideration, the following services, if and to the extent requested by us: (i) business development services, in such scope and substance as shall be agreed between us and the Pontifax; and (ii) a representative designated by Pontifax to serve as the chairman of our board of directors. The Pontifax Funds subsequently agreed that the exercise price of fifty-percent of their warrants will increase to equal the price at which our ordinary shares are sold to the public in the initial public offering of our securities, or if units are sold in the initial public offering of our securities, the exercise price per share will increase to be equal to the effective price per share of the ordinary shares underlying the units sold to the public in the offering. The Pontifax Funds also agreed that such portion of their warrants will vest and become exercisable only upon the consummation of the initial public offering of our securities prior to their expiration date. The remaining warrants with an NIS 0.20 exercise price will vest on a quarterly basis in eight equal installments during a period of 24 months from issuance. In addition, the Pontifax Funds agreed to reduce the term of their respective warrants such that these warrants will now expire after eight years (instead of ten years) following their issuance, i.e., on October 14, 2022. Upon the closing of our initial public offering any unvested portion of the warrants became fully vested and exercisable.

Shareholders Agreement

We entered into a shareholders agreement, dated as of March 17, 2011, to which each of the holders of our preferred shares, including Pontifax (Cayman) II, L.P., Pontifax (Israel) II L.P., Pontifax (Israel) II- Individual Investors L.P., BXR Portfolio Limited (formerly named Eastern Petroleum Investment Company Limited), Docor International B.V., Spearhead Investments (Bio) Ltd., Jacobs Investment Company LLC and Emigrant Alternative Portfolios LLC, is a party, either as an original signatory or by virtue of a joinder thereto, and certain of the holders of our ordinary shares, including Yoav Kimchy and Sigalit Kimchy are parties. On October 14, 2014, the parties to such shareholders agreement and the lenders under the credit line agreement dated August 20, 2014, entered into an Amended and Restated Shareholders Agreement, or the Shareholders Agreement. Prior to the closing of our initial public offering, we amended the Shareholders Agreement to eliminate provisions related to information rights and matters related to the board of directors, such that the amended Shareholders Agreement consists primarily of the provisions regarding registration rights described below, and the undertaking discussed below under "—Transactions with Check-Cap LLC and the Members and Manager of Check-Cap LLC."

Demand Registration Rights

At any time after the closing of our initial public offering, but subject to the terms of the 180-day lock-up agreements entered into between certain of the parties to the Shareholders Agreement and the underwriters of our initial public offering, at the request of, either (i) holders of a majority of our former Series D preferred shares (all of which converted into ordinary shares immediately prior to the closing of our initial public offering); or (ii) holders of a majority of our former Series C preferred shares (all of which converted into ordinary shares immediately prior to the closing of our initial public offering); or (iii) persons holding at least 20% of the ordinary shares issued upon conversion of the former preferred shares or in respect thereof, we must register any or all of such shareholders' ordinary shares. We are required to effect up to two such registrations for each former holder of our preferred shares, with respect to all of such person's or entities' shares. We are required to give notice of a demand registration to the other holders of registrable securities that are entitled to registration rights and include their shares in such registration if they so timely request.

Piggyback Registration Rights

All of the former holders of our preferred shares that are a party to the Shareholders Agreement have the right to request that we include their registrable securities in certain registration statements that we file in connection with the public offering of our shares. We are required to give notice of our intention to effect such a registration to all holders of our registrable securities that are entitled to registration rights and include their shares in such registration if they so timely request.

Registration Priority

To the extent it is not in our best interest for all of the former holders of our preferred shares to participate in any demand or piggyback registration, the shares to be included in the registration statement on behalf of the former preferred shareholders shall be allocated as follows: first, shares sought to be registered by the former holders of our Series D preferred shares; second, shares sought to be registered by the former holders of Series C preferred shares; third, shares sought to be registered by the former holders of our Series A preferred shares; and fourth, shares sought to be registered by the former holders of our Series B preferred shares.

Expenses

We have agreed to pay all expenses incurred in carrying out the above registrations, including the fees of one counsel chosen by the selling shareholders that are a party to the Shareholders Agreement. However, we shall not be required to pay any registration expenses in connection with any initiated registration that is subsequently withdrawn, other than a withdrawal due to a material adverse change not known to the holder of registrable securities at the time of such demand or request by us or the underwriters to reduce the size of the offering as a result of which the holders of at least a majority of the registrable securities elect to withdraw. A registration shall not count as a permitted registration until it has remained effective for a period of at least 120 days.

Transactions with Check-Cap LLC and the Members and Manager of Check-Cap LLC

On May 31, 2009, we entered into an asset transfer agreement with Check-Cap LLC pursuant to which Check-Cap LLC transferred all of its business operations and substantially all of its assets to us. Our shareholders' holdings on the date of the asset transfer transaction reflected their interests as members of Check-Cap LLC. In the framework of the asset transfer agreement and under the Shareholders Agreement, we undertook to use commercially reasonable efforts to procure that distributions or advance funds are made to our shareholders holding (at the date of the transaction) ordinary shares, Series A preferred shares and/or Series B preferred shares (i.e., the shareholders who are also members of Check-Cap LLC), as would be necessary to eliminate the tax impact on such shareholders of the reorganization and the transfer of all of the business operations and substantially all of the assets from Check-Cap LLC to us. Notwithstanding the foregoing, we will not advance payments to such shareholders to address the fact that they will no longer receive a "pass through" of losses generated by us as they previously received while owning units of Check-Cap LLC. These advances, if and to the extent made, will be deducted from any distributions such shareholders are entitled to receive from us. We have reserved $393,000 in our financial statements for the year ended December 31, 2014 on account of such advances.

In connection with the asset transfer agreement, we assumed the former obligation of Check-Cap LLC to distribute any proceeds it collects on the $1 million key man life insurance policy with respect to Yoav Kimchy to the former holders of the Series A preferred units in an amount equal to their respective capital contributed to Check-Cap LLC, less any amounts previously distributed to them, plus any accrued and unpaid dividends due to them as of the date of distribution.

Check-Cap Ltd. (Delaware), which is the manager of Check-Cap LLC and is wholly-owned by Mr. Kimchy, our chief technology officer and a director, handles from time to time certain logistical, administrative and investor relations matters for us with our U.S. suppliers and investors under a Services Agreement dated October 1, 2010, which expired on December 31, 2014. Under the agreement, we agreed to pay Check-Cap Ltd. (Delaware) in consideration of its services a quarterly payment of $20,000, which amount essentially covers its costs of performing such functions. We last utilized such services as of December 31, 2012. For the year ended December 31, 2012, we paid Check-Cap Ltd. (Delaware) an aggregate of $80,000 for such services.

94

C. Interests
of
Experts
and
Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information.

Financial Statements

See Item 18 – Financial Statements.

Legal Proceedings

From time to time, we may be involved in litigation that arises through the normal course of business. As of the date of this filing, we are not a party to any material litigation nor are we aware of any such threatened or pending litigation.

Dividend Policy

We have never declared and do not anticipate paying cash dividends in the foreseeable future. See Item 3D "Key Information – Risk factors — Risks Related to the Company — We have never declared or paid a dividend and currently do not intend to pay cash dividends in the foreseeable future. Any return on investment may be limited to the value of our securities." Our board of directors has discretion to declare and pay dividends on our ordinary shares and will make any determination to do so based on then-existing conditions, including our operating results, financial condition, current and anticipated cash needs and other business and economic factors that our board of directors may deem relevant. In addition, under Israeli law, we are only permitted to pay dividends out of "profits" (as defined by the Israeli Companies Law), provided that there is no reasonable concern that the dividend distribution will prevent us from meeting our existing and foreseeable obligations, as they become due. See Item 10.B. "Memorandum and Articles of Association—Dividend and Liquidation Rights."

Payment of dividends may be subject to Israeli withholding taxes. See Item 10.E. "Additional Information—Taxation—Israeli Tax Considerations and Government Programs—Law for the Encouragement of Capital Investments, 5719-1959."

B. Significant
Changes

Except as disclosed elsewhere in this Annual Report, there have been no other significant changes since December 31, 2014, until the date of the filing of this Annual Report.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

Our units were listed on the NASDAQ Capital Market on February 19, 2015 under the symbol "CHEKU." Prior to that date, there was no public trading market for our securities. Our initial public offering was priced at $6.00 per unit on February 20, 2015. Each unit consisted of one ordinary share and one-half of a Series A Warrant to purchase one ordinary share. Each unit was issued with one and one-half non-transferrable Long Term Incentive Warrants. Each whole Series A Warrant entitles the holder to purchase one ordinary share at an exercise price of $7.50. On March 18, 2015, the units separated and ceased to exist. Since such date, our ordinary shares and Series A Warrants have been listed on the NASDAQ Capital Market under the symbols "CHEK" and "CHEKW," respectively. The following table sets forth for the periods indicated the high and low sales prices per ordinary share as reported on the NASDAQ Capital Market:

Month Ended	High	Low
March 2015 (from March 18, 2015)	$ 6.30	$ 5.36
April 2015 (through April 27, 2015)	$ 5.90	$ 4.11

On April 27, 2015, the last reported sale price of our ordinary shares on the NASDAQ Capital Market was $4.58.

95

B. Plan of Distribution

Not applicable.

C. Markets for Ordinary Shares

Our ordinary shares are listed on the NASDAQ Capital Market under the symbols “CHEK.”

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share
Capital

Not applicable.

B. Memorandum and Articles of Association

Registration Number and Purposes of the Company

Our registration number with the Israeli Registrar of Companies is 51-425981-1. Our purpose as set forth in our amended articles of association is to engage in any lawful activity.

Voting Rights and Conversion

All ordinary shares have identical voting and other rights in all respects.

Transfer of Shares

Our fully paid ordinary shares are issued in registered form and may be freely transferred under our amended articles of association, unless the transfer is restricted or prohibited by another instrument, applicable law or the rules of a stock exchange on which the shares are listed for trade. The ownership or voting of our ordinary shares by non-residents of Israel is not restricted in any way by our amended articles of association or the laws of the State of Israel, except for ownership by nationals of some countries that are, or have been, in a state of war with Israel.

Election of Directors

Our ordinary shares do not have cumulative voting rights for the election of directors. As a result, the holders of a majority of the voting power represented at a shareholders meeting have the power to elect all of our directors, subject to the special approval requirements for external directors described in Item 6C “Directors, Senior Management and Employees— Board Practices— External Directors.”

Under our amended articles of association, our board of directors must consist of not less than four but no more than eleven directors, including at least two external directors as required by the Israeli Companies Law. Pursuant to our amended articles of association, other than the external directors, for whom special election requirements apply under the Israeli Companies Law, each of our directors will be appointed by a simple majority vote of holders of our voting shares, participating and voting at an annual general meeting of our shareholders. Each director (other than external directors) will hold office until the next annual general meeting following the annual general meeting at which they were elected and until his or her successor is elected and qualified, or until the occurrence of certain events, in accordance with the Israeli Companies Law and our amended articles of association, including his or her earlier resignation, death or removal by a vote of the majority of the voting power of our shareholders at a general meeting of until his or her office expires by operation of law. In addition, our amended articles of association allow our board of directors to appoint directors (other than external directors) to fill vacancies on the board of directors to serve for a term of office equal to the remaining period of the term of office of the directors(s) whose office(s) have been vacated. External directors are elected for an initial term of three years, may be elected for additional terms of three years each under certain circumstances, and may be removed from office pursuant to the terms of the Israeli Companies Law. See Item 6C "Directors, Senior Management and Employees— Board Practices — External Directors."

Dividend and Liquidation Rights

We may declare a dividend to be paid to the holders of our ordinary shares in proportion to their respective shareholdings. Under the Israeli Companies Law, dividend distributions are determined by the board of directors and do not require the approval of the shareholders of a company unless the company's articles of association provide otherwise. Our amended articles of association do not require shareholder approval of a dividend distribution and provide that dividend distributions may be determined by our board of directors.

Pursuant to the Israeli Companies Law, we may declare and pay dividends only if, upon the determination of our board of directors, there is no reasonable concern that the distribution will prevent us from being able to meet the terms of our existing and foreseeable obligations as they become due. Under the Israeli Companies Law, the distribution amount is further limited to the greater of retained earnings or earnings generated over the two most recent years legally available for distribution according to our then last reviewed or audited financial statements, provided that the date of the financial statements is not more than six months prior to the date of distribution. In the event that we do not have retained earnings or earnings generated over the two most recent years legally available for distribution, we must seek the approval of the court in order to distribute a dividend. The court may approve our request if it is convinced that there is no reasonable concern that the payment of a dividend will prevent us from satisfying our existing and foreseeable obligations as they become due.

In the event of our liquidation, after satisfaction of liabilities to creditors, our assets will be distributed to the holders of our ordinary shares in proportion to the nominal value of their shareholdings. This right, as well as the right to receive dividends, may be affected by the grant of preferential dividend or distribution rights to the holders of a class of shares with preferential rights that may be authorized in the future.

Exchange Controls

There are currently no Israeli currency control restrictions on remittances of dividends on our ordinary shares, proceeds from the sale of the shares or interest or other payments to non-residents of Israel, except for shareholders who are subjects of countries that are, or have been, in a state of war with Israel.

Shareholder Meetings

Under Israeli law, we are required to hold an annual general meeting of our shareholders once every calendar year that must be held no later than 15 months after the date of the previous annual general meeting. All meetings other than the annual general meeting of shareholders are referred to in our amended articles of association as special general meetings. Our board of directors may call special general meetings whenever it sees fit, at such time and place, within or outside of Israel, as it may determine. In addition, the Israeli Companies Law provides that our board of directors is required to convene a special general meeting upon the written request of (i) any two of our directors or one-quarter of the serving members of our board of directors; or (ii) one or more shareholders holding, in the aggregate, either (a) 5% or more of our outstanding shares and 1% of our outstanding voting power or (b) 5% or more of our outstanding voting power.

Furthermore, the Israeli Companies Law requires that resolutions regarding the following matters be approved by our shareholders at a general meeting:

- amendments to our articles of association;

- appointment, terms of service and termination of service of our auditors;
- appointment of external directors;
- approval of certain related party transactions;
- increases or reductions of our authorized share capital;
- mergers; and
- the exercise of our board of director's powers by a general meeting, if our board of directors is unable to exercise its powers and the exercise of any of its powers is essential for our proper management.

Subject to the provisions of the Israeli Companies Law and regulations promulgated thereunder, shareholders entitled to participate and vote at general meetings are the shareholders of record on a date to be decided by the board of directors, which, as a company listed on an exchange outside Israel, may be between four and 40 days prior to the date of the meeting.

The Israeli Companies Law requires that a notice of any annual general meeting or special general meeting be provided to shareholders at least 21 days prior to the meeting and if the agenda of the meeting includes, among other things, the appointment or removal of directors, the approval of transactions with office holders or interested or related parties, an approval of a merger or the approval of the compensation policy, notice must be provided at least 35 days prior to the meeting.

Under the Israeli Companies Law, our shareholders are not permitted to take action via written consent in lieu of a meeting.

Voting rights

Quorum Requirements

Pursuant to our amended articles of association, holders of our ordinary shares have one vote for each ordinary share held on all matters submitted to a vote before the shareholders at a general meeting. The quorum required for general meetings of our shareholders is at least two shareholders present in person, by proxy or written ballot, who hold or represent between them at least 25% of the total outstanding voting rights (or if a higher percentage is required by law, such higher percentage), within half an hour of the time fixed for the commencement of the meeting. A meeting adjourned for lack of a quorum is adjourned either to the same day in the following week at the same time and place or to such day, time and place as specified in the notice of the meeting or to such day, time and place as the chairman of the general meeting shall determine. At the reconvened meeting, at least two shareholders present in person or by proxy shall constitute a lawful quorum, unless the meeting of shareholders was convened at the demand of shareholders, in which case, the quorum shall be the presence of one or more shareholders holding at least 5% of our issued share capital and at least one percent of the voting power of our shares, or one or more shareholders with at least 5% of the voting power of our shares.

Vote Requirements

Our amended articles of association provide that all resolutions of our shareholders require a simple majority vote, unless otherwise required by the Israeli Companies Law or by our amended articles of association. Under the Israeli Companies Law, certain actions require a special majority, including: (i) appointment of external directors, requiring the approval described in Item 6C “Directors, Senior Management and Employees—Board Practices—External Directors”; (ii) approval of an extraordinary transaction with a controlling shareholder or in which the controlling shareholder has a personal interest and the terms of employment or other engagement of the controlling shareholder or a relative of the controlling shareholder (even if not extraordinary), requiring the approval described in Item 6C “Directors, Senior Management and Employees— Board Practices—Approval of Related Party Transactions under Israeli Law— Disclosure of Personal Interests of Controlling Shareholders and Approval of Certain Transactions”; (iii) approval of a compensation policy, requiring the approval described in Item 6C “Directors, Senior Management and Employees—Board Practices——Compensation Committee and Compensation Policy”; and (iv) approval of executive officer compensation inconsistent with our office holder compensation policy or the compensation of our chief executive officer (subject to limited exceptions), requiring the approval described in Item 6C “Directors, Senior Management and Employees— Board Practices — Approval of Related Party Transactions under Israeli Law— Disclosure of Personal Interests of an Office Holder and Approval of Certain Transactions.”

In addition, under the Israeli Companies Law the authorization of the chairman of the board to assume the role or responsibilities of the chief executive officer, or the authorization of the chief executive officer or his or her relative thereof to assume the role or responsibilities of the chairman of the board, for periods of no longer than three years each, is subject to receipt of the approval of a majority of the shares voting on the matter, provided that either (i) included in such majority are at least two-thirds of the shares of shareholders who are non-controlling shareholders and shareholders who do not have a personal interest in the resolution that are voted at the meeting on the matter (excluding any abstentions); or (ii) the total number of shares of shareholders specified in clause (i) who voted against the resolution does not 2% of the voting rights in the company.

Another exception to the simple majority vote requirement is a resolution for the voluntary winding up, or an approval of a scheme of arrangement or reorganization, of the company pursuant to Section 350 of the Israeli Companies Law, which requires the approval of holders of 75% of the voting rights represented at the meeting and voting on the resolution.

Access to Corporate Records

Under the Israeli Companies Law, shareholders are provided access to: minutes of the general meetings of our shareholders; our shareholders register and principal shareholders register, articles of association and financial statements; and any document that we are required by law to file publicly with the Israeli Companies Registrar or the Israel Securities Authority. In addition, shareholders may request to be provided with any document in the company's possession related to an action or transaction requiring shareholder approval under the related party transaction provisions of the Israeli Companies Law. We may deny this request if we believe it has not been made in good faith or if such denial is necessary to protect our interest or protect a trade secret or patent.

Modification of Class Rights

Under the Israeli Companies Law and our amended articles of association, the rights attached to any class of shares, such as voting, liquidation and dividend rights, may be modified or cancelled by adoption of a resolution by the holders of a majority of all shares as one class, without any required separate resolution of any class of shares, or otherwise in accordance with the rights attached to such class of shares, as set forth in our amended articles of association.

Registration Rights

For a discussion of registration rights we have granted to our existing shareholders, please see Item 7B "Major Shareholders and Related Party Transactions—Related Party Transactions — Shareholders Agreement."

Acquisitions under Israeli Law

Full Tender Offer

A person wishing to acquire shares of an Israeli public company, and who would as a result hold over 90% of the target company's issued and outstanding share capital, is required by the Israeli Companies Law to make a tender offer to all of the company's shareholders for the purchase of all of the issued and outstanding shares of the company. A person wishing to acquire shares of a Israeli public company, and who would as a result hold over 90% of the issued and outstanding share capital of a certain class of shares of the company, is required to make a tender offer to all of the shareholders who hold shares of the relevant class for the purchase of all of the issued and outstanding shares of that class. If the shareholders who do not accept the offer hold less than 5% of the issued and outstanding share capital of the company or of the applicable class, and more than half of the shareholders who do not have a personal interest in the offer accept the offer, all of the shares that the acquirer offered to purchase will be transferred to the acquirer by operation of law. However, a tender offer will also be accepted if the shareholders who do not accept the offer hold less than 2% of the issued and outstanding share capital of the company or of the applicable class of shares.

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

If (a) the shareholders who did not respond or accept the tender offer hold at least 5% of the issued and outstanding share capital of the company, or of the applicable class, or the shareholders who accept the offer constitute less than a majority of the offerees that do not have a personal interest in the acceptance of the tender offer, or (b) the shareholders who did not accept the tender offer hold 2% or more of the issued and outstanding share capital of the company (or of the applicable class), the acquirer may not acquire shares of the company that will increase its holdings to more than 90% of the company's issued and outstanding share capital or of the applicable class from shareholders who accepted the tender offer.

Special Tender Offer

The Israeli Companies Law provides that an acquisition of shares of an Israeli public company must be made by means of a special tender offer if as a result of the acquisition the purchaser would become a holder of 25% or more of the voting rights in the company, if there is no other shareholder that holds 25% or more of the voting rights in the company, subject to exceptions. Similarly, the Israeli Companies Law provides that an acquisition of shares in an Israeli public company must be made by means of a special tender offer if as a result of the acquisition the purchaser would become a holder of more than 45% of the voting rights in the company, if there is no other shareholder of the company who holds more than 45% of the voting rights in the company, subject to certain exceptions. No tender offer is required if the acquisition of shares: (i) occurs in the context of a private placement, that was approved by the company's shareholders and whose purpose is to give the acquirer at least 25% of the voting rights in the company if there is no person who holds 25% or more of the voting rights in the company, or as a private placement whose purpose is to give the acquirer 45% of the voting rights in the company, if there is no person who holds 45% of the voting rights in the company; (ii) was from a holder of 25% or more of the voting rights in the company following which the purchaser will hold 25% or more of the voting rights in the company; or (iii) was from a holder of more than 45% of the voting rights in the company following which the purchaser will hold more than 45% of the voting rights in the company.

A special tender offer must be extended to all shareholders of a company but the offeror is not required to purchase shares representing more than 5% of the voting power attached to the company's outstanding shares, regardless of how many shares are tendered by shareholders. A special tender offer may be consummated only if (i) at least 5% of the voting power attached to the company's outstanding shares will be acquired by the offeror; and (ii) the number of shares tendered in the offer exceeds the number of shares whose holders objected to the offer (excluding the purchaser, its controlling shareholders, holders of 25% or more of the voting rights in the company or any person having a personal interest in the acceptance of the tender offer, or anyone on their behalf, including any such person's relatives and entities under their control). If a special tender offer is accepted, then the purchaser or any person or entity controlling it, at the time of the offer, and any person or entity under common control with the purchaser or such controlling person or entity may not make a subsequent tender offer for the purchase of shares of the target company and may not enter into a merger with the target company for a period of one year from the date of the offer, unless the purchaser or such person or entity undertook to effect such an offer or merger in the initial special tender offer.

Merger

The Israeli Companies Law permits merger transactions if approved by each party's board of directors and, unless certain requirements described under the Israeli Companies Law are met, by a majority vote of each party's shares, and, in the case of the target company, a majority vote of each class of its shares, voted on the proposed merger at a shareholders meeting. The board of directors of a merging company may not approve the merger if it determines that there exists a reasonable concern that, as a result of the merger, the surviving company will be unable to satisfy the obligations of the merging entities.

For purposes of the shareholder vote of a merging company whose shares are held by the other merging company or a person or entity holding 25% or more of any of the means of control of the other merging entity, unless a court rules otherwise, the merger will not be deemed approved if a majority of the votes of shares voting on the matter at the shareholders meeting (excluding abstentions) that are held by parties other than the other party to the merger, or by any other person or entity who holds 25% or more of the voting rights or the right to appoint 25% or more of the directors of the other party, or any one on their behalf including their relatives or corporations controlled by any of them, vote against the merger. If, however, the merger involves a merger with a company's own controlling shareholder or if the controlling shareholder has a personal interest in the merger, then the merger is instead subject to the same Special Majority approval that governs all extraordinary transactions with controlling shareholders (as described in Item 6C “Directors, Senior Management and Employees—Board Practices — Approval of Related Party Transactions under Israeli Law — Disclosure of Personal Interests of Controlling Shareholders and Approval of Certain Transactions”).

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

Upon the request of a creditor of either party to the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that, as a result of the merger, the surviving company will be unable to satisfy the obligations of the merging entities, and may further give instructions to secure the rights of creditors.

In addition, a merger may not be consummated unless at least 50 days have passed from the date on which a proposal for approval of the merger was filed by each party with the Israeli Registrar of Companies and at least 30 days have passed from the date on which the merger was approved by the shareholders of each party.

Anti-Takeover Measures under Israeli Law

The Israeli Companies Law allow us to create and issue shares having rights different from those attached to our ordinary shares, including shares providing certain preferred rights with respect to voting, distributions or other matters and shares having preemptive rights. No preferred shares are currently authorized under our amended articles of association. In the future, if we do authorize, create and issue a specific class of preferred shares, such class of shares, depending on the specific rights that may be attached to it, may have the ability to frustrate or prevent a takeover or otherwise prevent our shareholders from realizing a potential premium over the market value of their ordinary shares. The authorization and designation of a class of preferred shares will require an amendment to our amended articles of association, which requires the prior approval of the holders of a majority of the voting power attached to our issued and outstanding shares at a general meeting. The convening of the meeting, the shareholders entitled to participate and the majority vote required to be obtained at such a meeting will be subject to the requirements set forth in the Israeli Companies Law and our articles of association as described above in "— Voting Rights."

Borrowing Powers

Pursuant to the Israeli Companies Law and our amended articles of association, our board of directors may exercise all powers and take all actions that are not required under law or under our amended articles of association to be exercised or taken by our shareholders, including the power to borrow money for company purposes.

Changes in Capital

Our amended articles of association enable us to increase or reduce our share capital. Any such changes are subject to the provisions of the Israeli Companies Law and must be approved by a resolution duly passed by our shareholders at a general meeting by voting on such change in the capital. In addition, transactions that have the effect of reducing capital, such as the declaration and payment of dividends in the absence of sufficient retained earnings or profits, require the approval of both our board of directors and an Israeli court.

C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described in Item 4. "Information on Our Company," Item 7B "Major Shareholders and Related Party Transactions — Related Party Transactions" or elsewhere in this Annual Report

D. Exchange controls

There are currently no Israeli currency control restrictions on remittances of dividends on our ordinary shares, proceeds from the sale of the shares or interest or other payments to non-residents of Israel, except for shareholders who are subjects of countries that are, or have been, in a state of war with Israel.

E. Taxation

The following description is not intended to constitute a complete analysis of all tax consequences relating to the ownership and disposition of our securities. You should consult your own tax advisor concerning the tax consequences of your particular situation, as well as any tax consequences that may arise under the laws of any state, local, foreign or other taxing jurisdiction.

Israeli Tax Considerations and Government Programs

The following is a brief summary of the material Israeli tax laws applicable to us and certain Israeli Government programs that benefit us. This section also contains a discussion of material Israeli tax consequences concerning the ownership and disposition of our securities purchased by investors who are non-Israeli resident shareholders in this offering. This summary does not discuss all the aspects of Israeli tax law that may be relevant to a particular investor in light of his or her personal investment circumstances or to some types of investors subject to special treatment under Israeli law. Examples of such investors include residents of Israel or traders in securities who are subject to special tax regimes not covered in this discussion. Because parts of this discussion are based on new tax legislation that has not yet been subject to judicial or administrative interpretation, we cannot assure you that the appropriate tax authorities or the courts will accept the views expressed in this discussion. The discussion below is subject to change, including due to amendments under Israeli law or changes to the applicable judicial or administrative interpretations of Israeli law, which change could affect the tax consequences described below.

General Corporate Tax Structure in Israel

Israeli resident companies are generally subject to corporate tax, currently at the rate of 26.5% of a company's taxable income. However, the effective tax rate payable by a company that derives income from an Approved Enterprise, a Benefited Enterprise or a Preferred Enterprise (as discussed below) may be considerably less. Capital gains derived by an Israeli resident company are subject to tax at the prevailing corporate tax rate.

Law for the Encouragement of Industry (Taxes), 5729-1969

The Law for the Encouragement of Industry (Taxes), 5729-1969, generally referred to as the Industry Encouragement Law, provides several tax benefits for "Industrial Companies." The Industry Encouragement Law defines an "Industrial Company" as a company resident in Israel, of which 90% or more of its income in any tax year, other than income from defense loans, is derived from an "Industrial Enterprise" owned by it. An "Industrial Enterprise" is defined as an enterprise whose principal activity in a given tax year is industrial production.

The following corporate tax benefits, among others, are available to Industrial Companies:

- amortization over an eight-year period of the cost of purchased know-how and patents and rights to use a patent and know-how which are used for the development or advancement of the Industrial Enterprise;

- under limited conditions, an election to file consolidated tax returns with related Israeli Industrial Companies; and

- expenses related to a public offering are deductible in equal amounts over three years.

Eligibility for the benefits under the Industry Encouragement Law is not subject to receipt of prior approval from any governmental authority. We believe that we may qualify as an "Industrial Company" within the meaning of the Industry Encouragement Law; however, there can be no assurance that we will qualify as an Industrial Company or that the benefits described above will be available in the future.

Law for the Encouragement of Capital Investments, 5719-1959

The Law for the Encouragement of Capital Investments, 5719-1959, generally referred to as the Investment Law, provides certain incentives for capital investments in production facilities (or other eligible assets) by "Industrial Enterprises" (as defined under the Investment Law).

The Investment Law was significantly amended effective April 1, 2005, referred to as the 2005 Amendment, and further amended as of January 1, 2011, referred to as the 2011 Amendment. Pursuant to the foregoing amendments, generally tax benefits that were granted in accordance with the provisions of the Investment Law prior to each such amendment remain in force; however, any benefits granted subsequent to the respective amendment are subject to the provisions of the Investment Law as amended.

Tax Benefits Prior to the 2005 Amendment

Prior to the 2005 Amendment, a capital investment in eligible production facilities (or other eligible assets) could, upon application to the Investment Center of the Israeli Ministry of Economy (formerly named the Ministry of Industry, Trade and Labor), or the Investment Center, be designated as an "Approved Enterprise" and accordingly, entitled to certain tax benefits under the Investment Law. Each certificate of approval for an Approved Enterprise relates to a specific investment program in the Approved Enterprise, delineated both by the financial scope of the investment and by the physical characteristics of the facility or the asset. We do not have any Approved Enterprises.

102

Tax Benefits Subsequent to the 2005 Amendment

Pursuant to the 2005 Amendment, a company whose facilities meet certain criteria set forth in the 2005 Amendment, may claim certain tax benefits offered by the Investment Law (as further described below) directly in its tax returns, without the need to obtain prior approval. In order to receive the tax benefits, a company must make an investment which meets all of the conditions, including exceeding a minimum entitling investment amount, set forth in the Investment Law. Such investment allows a company to receive "Benefited Enterprise" status, and may be made over a period of no more than three years ending at the end of the year in which the company chose to have the tax benefits apply to its Benefited Enterprise, referred to as the "Year of Election."

The extent of the tax benefits available under the 2005 Amendment to qualifying income of a Benefited Enterprise depends on, among other things, the geographic location in Israel of the Benefited Enterprise. The location will also determine the period for which tax benefits are available. Under the "Exemption Track" the tax benefits include an exemption from corporate tax on undistributed income generated by the Benefited Enterprise for a period of two to ten years, depending on the geographic location of the Benefited Enterprise in Israel, and a reduced corporate tax rate of 10% to 25% for the remainder of the benefits period, depending on the level of foreign investment in the company in each year. The benefits period is for a duration of seven or ten years, depending on the location of the Benefited Enterprise, from the later of the first year in which the company generated taxable income from its Benefited Enterprise and the Year of Election, but in any event not more than 12 or 14 years from the Year of Election, depending on the location of the company. A company qualifying for tax benefits under the Exemption Track which pays a dividend out of income derived by its Benefited Enterprise during the tax exemption period will be subject to corporate tax in respect of the amount of the dividend (grossed-up to reflect the pre-tax income that it would have had to earn in order to distribute the dividend) at the corporate tax rate which would have otherwise been applicable. Dividends paid out of income attributed to a Benefited Enterprise are generally subject to withholding tax at source at the rate of 15%-20% or such lower rate as may be provided in an applicable tax treaty.

The benefits available to a Benefited Enterprise are subject to the fulfillment of conditions stipulated in the Investment Law and its regulations. If a company does not meet these conditions, it may be required to refund the amount of tax benefits, as adjusted by the Israeli consumer price index, and interest, or other monetary penalties.

We currently have one Benefited Enterprise program under the Investments Law, which, we believe, entitle us to certain tax benefits with respect to income to be derived from our Benefited Enterprise. During the benefits period, taxable income from our Benefited Enterprise program (once generated) will be tax exempt for a period of ten years commencing with the year we will first earn taxable income relating to such enterprise. We chose 2010 as the Year of Election. Due to the location of our company, we believe we are entitled to a 10 year benefit period, subject to a 14 year limitation from the Year of Election, and therefore, the tax benefit period will in any event end in 2023.

Tax Benefits under the 2011 Amendment

The 2011 Amendment canceled the availability of the benefits granted to companies under the Investment Law prior to 2011 and, instead, introduced new benefits for income generated by a "Preferred Company" through its "Preferred Enterprise" (as such terms are defined in the Investment Law) as of January 1, 2011. The definition of a Preferred Company includes a company incorporated in Israel that is not wholly-owned by a governmental entity, and that has, among other things, Preferred Enterprise status and is controlled and managed from Israel. Effective January 1, 2014, a Preferred Company is entitled to a reduced corporate tax rate of 16% with respect to its income derived by its Preferred Enterprise in 2014 and thereafter, unless the Preferred Enterprise is located in a specified development zone, in which case the rate will be 9%. Our facilities are located in a specified development zone.

Dividends paid out of income attributed to a Preferred Enterprise are generally subject to withholding tax at source at the rate of 20% or such lower rate as may be provided in an applicable tax treaty. However, if such dividends are paid to an Israeli company, no tax is required to be withheld (although, if such dividends are subsequently distributed to individuals or a non-Israeli company, withholding tax at a rate of 20% or such lower rate as may be provided in an applicable tax treaty will apply).

The 2011 Amendment also provides transitional provisions to address companies already enjoying existing tax benefits under the Investment Law. These transitional provisions provide, among other things, that unless an irrevocable request is made to apply the provisions of the Investment Law as amended in 2011 with respect to income to be derived as of January 1, 2011, a Benefited Enterprise can elect to continue to benefit from the benefits provided to it before the 2011 Amendment came into effect, provided that certain conditions are met.

103

We have examined the possible effect, if any, of the provisions of the 2011 Amendment on our financial statements and have decided not to apply the new benefits under the 2011 Amendment.

The termination or substantial reduction of any of the benefits available under the Investment Law could materially increase our future tax liabilities.

The Encouragement of Industrial Research and Development Law, 5744-1984

Under the Encouragement of Industrial Research and Development Law, 5744-1984, generally referred to as the Research Law, research and development programs which meet specified criteria and are approved by a committee of the OCS are eligible for grants. The grants awarded are typically up to 50% of the project's expenditures, as determined by the research committee. The grantee is required to pay royalties to the State of Israel from the sale of products developed under the program. Regulations under the Research Law generally provide for the payment of royalties of 3% to 5% (or 6% with respect to certain limited programs and at an increased rate under certain circumstances) on sales of products and services based on technology developed using grants, until 100% of the grant, linked to the dollar and bearing interest at the LIBOR rate, is repaid. The terms of the Israeli government participation also require that products developed with OCS grants be manufactured in Israel and that the technology developed thereunder may not be transferred outside of Israel, unless approval is received from the OCS. However, this does not restrict the export of products that incorporate the funded technology. In addition, payment of additional amounts is required if manufacturing is moved outside of Israel, in which case the royalty repayment rate is increased and the royalty ceiling can reach up to three times the amount of the grants received, and if OCS developed know-how is transferred outside of Israel, the royalty ceiling can reach up to six times the amount of grants (plus interest).

As of December 31, 2014, we have received funding from the OCS for the financing of a portion of our research and development expenditures in an aggregate amount of $3.5 million. As of December 31, 2014, we had a contingent obligation to the OCS in the amount of $1.9 million.

Taxation of our Shareholders

Capital Gains Taxes Applicable to Non-Israeli Resident Shareholders. A non-Israeli resident who derives capital gains from the sale of traded securities of an Israeli resident company that were purchased after the company was listed for trading on a stock exchange outside of Israel will be exempt from Israeli tax so long as the securities were not held through a permanent establishment that the non-resident maintains in Israel. However, non-Israeli corporations will not be entitled to the foregoing exemption if Israeli residents: (i) have a controlling interest of 25% or more in such non-Israeli corporation; or (ii) are the beneficiaries of, or are entitled to, 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly. In addition, such exemption is not applicable to a person whose gains from selling or otherwise disposing of the shares are deemed to be business income.

Additionally, a sale of securities by a non-Israeli resident may be exempt from Israeli capital gains tax under the provisions of an applicable tax treaty. For example, under the Convention Between the Government of the United States of America and the Government of the State of Israel with respect to Taxes on Income, as amended, or the United States-Israel Tax Treaty, the sale, exchange or other disposition of shares by a shareholder who (i) is a U.S. resident (for purposes of the treaty); (ii) holds the shares as a capital asset; and (iii) is entitled to claim the benefits afforded to such person by the treaty, is generally exempt from Israeli capital gains tax. Such exemption will not apply if, among other things: (i) the capital gain arising from such sale, exchange or other disposition is treated as industrial or commercial profits attributed to a permanent establishment in Israel, subject to certain conditions; (ii) the shareholder holds, directly or indirectly, shares representing 10% or more of the voting capital of the corporation during any part of the 12-month period preceding the disposition, subject to certain conditions; (iii) the capital gain arising from such sale, exchange or disposition is treated as royalties; or (iv) such U.S. resident is an individual and was present in Israel for 183 days or more during the relevant taxable year. In such case, the sale, exchange or disposition of our securities would be subject to Israeli tax, to the extent applicable; however, under the United States-Israel Tax Treaty, the taxpayer would be permitted to claim a credit for such taxes against the U.S. federal income tax imposed with respect to such sale, exchange or disposition, subject to the limitations under U.S. law applicable to foreign tax credits. The United States-Israel Tax Treaty does not relate to U.S. state or local taxes.

In some instances where our shareholders may be liable for Israeli tax on the sale of their securities, the payment of the consideration may be subject to the withholding of Israeli tax at source. Shareholders may be required to demonstrate that they are exempt from tax on their capital gains in order to avoid withholding at source at the time of sale.

Taxation of Non-Israeli Shareholders on Receipt of Dividends. Non-Israeli residents are generally subject to Israeli withholding tax on the receipt of dividends paid on our ordinary shares at the rate of 25%, unless relief is provided in a treaty between Israel and the shareholder's country of residence (subject to the receipt of a valid certificate from the Israeli Tax Authority allowing for a reduced tax rate). With respect to a person who is a "substantial shareholder" at the time of receiving the dividend or at any time during the preceding 12 months, the applicable withholding tax rate is 30%, unless such "substantial shareholder" holds such shares through a nominee company, in which case the rate is 25%. A "substantial shareholder" is generally a person who alone or together with such person's relative or another person who collaborates with such person on a permanent basis, holds, directly or indirectly, at least 10% of any of the "means of control" of the corporation. "Means of control" generally include the right to vote, receive profits, nominate a director or an executive officer, receive assets upon liquidation, or order someone who holds any of the aforesaid rights how to act, regardless of the source of such right.

However, a distribution of dividends to non-Israeli residents is subject to withholding tax at source at a rate of 15-20% if the dividend is distributed from income attributed to an Approved Enterprise, Benefited Enterprise or a Preferred Enterprise, unless a reduced tax rate is provided under an applicable tax treaty. With respect to a Benefited Enterprise whose Year of Election is before 2014, such as ours, distribution of dividends attributed to income of such Benefited Enterprise is subject to 15% tax rate. We cannot assure you that in the event we declare a dividend we will designate the income out of which the dividend is paid in a manner that will reduce shareholders' tax liability.

Under the United States-Israel Tax Treaty, the maximum rate of tax withheld at source in Israel on dividends paid to a holder of our ordinary shares who is a U.S. resident (for purposes of the United States-Israel Tax Treaty) is 25%. With respect to dividends paid to a U.S. corporation that held 10% or more of our outstanding voting capital throughout the tax year in which the dividend is distributed and the preceding tax year and provided that not more than 25% of the gross income of the paying corporation for such prior taxable year (if any) consists of certain interest or dividends, the maximum rate of tax withheld at source is 12.5%; provided, however, that if the paying corporation is an Approved Enterprise, the applicable withholding tax rate under such circumstances is reduced to 15%. We believe that the reference in the United States-Israel Tax Treaty to an Approved Enterprise under the Investment Law is deemed to include also a Benefitted Enterprise and Preferred Enterprise under the Investment Law.

U.S. residents who are subject to Israeli withholding tax on a dividend may be entitled to a credit or deduction for U.S. federal income tax purposes in the amount of the taxes withheld, subject to detailed rules contained in U.S. tax legislation.

Taxation of Non-Israeli Shareholders upon Exercise of Long Term Incentive Warrants. While not free from doubt, the Long Term Incentive Warrants may be treated for Israeli income tax purposes as compensatory warrants (i.e., issued to compensate an original purchaser of units in this offering for holding the ordinary shares underlying the units for a certain period of time after the closing date of this offering). In such case, a holder of Long Term Incentive Warrants may recognize ordinary compensation income for Israeli income tax purposes on the exercise of the Long Term Incentive Warrants.

Non-Israeli residents are subject to Israeli income tax only on income from sources in Israel, which is income accrued or derived in Israel. Therefore, to the extent that the Long Term Incentive Warrants may be treated as compensatory warrants for Israeli tax purposes, the ordinary compensation income on the exercise of the Long Term Incentive Warrants would not be subject to Israeli income tax to the extent such income is deemed to be attributable to the performance of services outside of Israel. Furthermore, according to the United States-Israel Tax Treaty, income received by an individual for his performance of labor or personal services shall be treated as income from sources within the country where the service was provided (i.e., with respect to U.S. residents (for purposes of the treaty), U.S. source income) and therefore, would be exempt from Israeli income tax.

To the extent that the Long Term Incentive Warrants may be treated as compensatory warrants, the exercise of the Long Term Incentive Warrants may be subject to the withholding of Israeli tax at source by us and the warrants may not be exercised unless the withholding obligation has been fulfilled. Shareholders may be required to demonstrate that they are exempt from tax on such income in order to avoid withholding at source at the time of exercise.

Surtax

Subject to the provisions of an applicable tax treaty, individuals who are subject to tax in Israel are also subject to an additional tax at a rate of 2% on annual income (including, but not limited to, dividends, interest and capital gain) exceeding NIS 811,560 for 2014, which amount is linked to the annual change in the Israeli consumer price index.

105

Estate and Gift Tax

Israeli law presently does not impose estate or gift taxes.

EACH PROSPECTIVE INVESTOR IN OUR SECURITIES IS URGED TO CONSULT ITS OWN TAX ADVISOR WITH RESPECT TO THE PARTICULAR TAX CONSEQUENCES TO SUCH INVESTOR OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF OUR SECURITIES, INCLUDING THE APPLICABILITY AND EFFECT OF ANY ISRAELI TAX LAWS AND ANY APPLICABLE TAX TREATIES.

U.S. Federal Income Taxation

General

The following are the material U.S. federal income tax consequences of the acquisition, ownership and disposition of our securities. Because the components of the units sold in our initial public offering separated on March 18, 2015, the holder of a unit should have been treated, for U.S. federal income tax purposes, as the owner of the underlying ordinary share and one-half of a Series A Warrant components of the unit, as the case may be. As a result, the discussion below of the U.S. federal income tax consequences with respect to actual holders of ordinary shares and Series A Warrants also should have applied to the holders of units (as the deemed owners of the ordinary shares and Series A Warrants underlying the units).

The discussion below of the U.S. federal income tax consequences to "U.S. Holders" will apply to a beneficial owner of our securities that is for U.S. federal income tax purposes:

- an individual citizen or resident of the United States;
- a corporation (or other entity treated as a corporation) that is created or organized (or treated as created or organized) in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate whose income is includible in gross income for U.S. federal income tax purposes regardless of its source; or
- a trust if (i) a U.S. court can exercise primary supervision over the trust's administration and one or more U.S. persons are authorized to control all substantial decisions of the trust; or (ii) it has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

A beneficial owner of our securities that is described above is referred to herein as a "U.S. Holder." If a beneficial owner of our securities is not described as a U.S. Holder and is not an entity treated as a partnership or other pass-through entity for U.S. federal income tax purposes, such owner will be considered a "Non-U.S. Holder." The material U.S. federal income tax consequences applicable specifically to Non-U.S. Holders are described below under the heading "Non-U.S. Holders."

This discussion is based on the Internal Revenue Code of 1986, as amended (the "Code"), its legislative history, Treasury regulations promulgated thereunder, published rulings and court decisions, all as currently in effect. These authorities are subject to change or differing interpretations, possibly on a retroactive basis.

This discussion does not address all aspects of U.S. federal income taxation that may be relevant to any particular holder based on such holder's individual circumstances. In particular, this discussion considers only holders that purchased our units in our initial public offering and own and hold our securities as capital assets within the meaning of Section 1221 of the Code, and does not address the potential application of the alternative minimum tax or the U.S. federal income tax consequences to holders that are subject to special rules, including:

- financial institutions or financial services entities;
- broker-dealers;
- persons that are subject to the mark-to-market accounting rules under Section 475 of the Code;
- tax-exempt entities;
- governments or agencies or instrumentalities thereof;
- insurance companies;
- regulated investment companies;
- real estate investment trusts;
- certain expatriates or former long term residents of the United States;
- persons that actually or constructively own 5% or more of our voting shares;
- except as specifically discussed herein in respect of the Long Term Incentive Warrants, persons that acquired our securities pursuant to an exercise of employee options, in connection with employee incentive plans or otherwise as compensation;

- persons that hold our securities as part of a straddle, constructive sale, hedging, conversion or other integrated transaction;
- persons whose functional currency is not the U.S. dollar;
- passive foreign investment companies; or
- controlled foreign corporations.

This discussion does not address any aspect of U.S. federal non-income tax laws, such as gift or estate tax laws, or state, local or non-U.S. tax laws or, except as discussed herein, any tax reporting obligations applicable to a holder of our securities. Additionally, this discussion does not consider the tax treatment of partnerships or other pass-through entities or persons who hold our securities through such entities. If a partnership (or other entity classified as a partnership for U.S. federal income tax purposes) is the beneficial owner of our securities, the U.S. federal income tax treatment of a partner in the partnership generally will depend on the status of the partner and the activities of the partnership. This discussion also assumes that any distribution made (or deemed made) to a holder in respect of our securities and any consideration received (or deemed received) by a holder in connection with the sale or other disposition of our securities will be in U.S. dollars. In addition, as described in Item 3D. “Risk factors – Risks Related to Taxation – There is a risk that we could be treated as a domestic (U.S.) corporation for U.S. federal income tax purposes by reason of the transactions related to our acquisition of all of the business operations and substantially all of the assets of Check-Cap LLC on May 31, 2009 (hereinafter sometimes referred to as the “reorganization”),” this discussion also assumes that we will be and have been treated as a foreign corporation for U.S. federal income tax purposes. Moreover, this discussion assumes that a holder owned a number of units and will own a number of Series A Warrants and Long Term Incentive Warrants that are each divisible by two and, thus, did not have a fractional warrant at the time of the separation of a unit and will not have a fractional warrant upon the exercise of a Series A Warrant and/or Long Term Incentive Warrant, as the case may be.

We have not sought, and will not seek, a ruling from the Internal Revenue Service (the “IRS”) or an opinion of counsel as to any U.S. federal income tax consequence described herein. The IRS may disagree with the description herein, and its determination may be upheld by a court. Moreover, there can be no assurance that future legislation, regulations, administrative rulings or court decisions will not adversely affect the accuracy of the statements in this discussion.

EACH PROSPECTIVE INVESTOR IN OUR SECURITIES IS URGED TO CONSULT ITS OWN TAX ADVISOR WITH RESPECT TO THE PARTICULAR TAX CONSEQUENCES TO SUCH INVESTOR OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF OUR SECURITIES, INCLUDING THE APPLICABILITY AND EFFECT OF ANY STATE, LOCAL, AND NON-U.S. TAX LAWS, AS WELL AS U.S. FEDERAL TAX LAWS AND ANY APPLICABLE TAX TREATIES.

Allocation of Purchase Price of a Unit and Characterization of a Unit and its Components and the Long Term Incentive Warrants

While not free from doubt, each unit should have been treated for U.S. federal income tax purposes as an investment unit consisting of one ordinary share and one-half of a Series A Warrant to acquire one ordinary share. For U.S. federal income tax purposes, each holder of a unit generally had to allocate the purchase price of a unit between the ordinary share and the one-half of a Series A Warrant that comprise the unit based on the relative fair market value of each at the time of issuance. The price allocated to the ordinary share and the one-half of a Series A Warrant generally will be the holder’s tax basis in such share or one-half of a Series A Warrant, as the case may be. While uncertain, the IRS, by analogy to the rules relating to the allocation of the purchase price to components of a unit consisting of debt and equity, may take the position that any allocation of the purchase price that we may make will be binding on a holder of a unit, unless the holder explicitly discloses in a statement attached to the holder's timely filed U.S. federal income tax return for the taxable year that includes the acquisition date of the unit that the holder's allocation of the purchase price between the ordinary share and the one-half of a Series A Warrant that comprise the unit is different than our allocation. Any such allocation is not, however, binding on the IRS.

As discussed under "U.S. Holders — Exercise of Long Term Incentive Warrants" below, while not free from doubt, the Long Term Incentive Warrants may be treated for U.S. federal income tax purposes as compensatory warrants. Based on this characterization, no portion of the purchase price of a unit generally should have been allocated to the Long Term Incentive Warrants, and a holder of the Long Term Incentive Warrants may have ordinary compensation income for U.S. federal income tax purposes on the exercise of the Long Term Incentive Warrants, as described under "U.S. Holders — Exercise of Long Term Incentive Warrants" and "Non-U.S. Holders" below.

Each holder is advised to consult its own tax advisor with respect to the risks associated with the Long Term Incentive Warrants and the investment in a unit (including alternative characterizations of the Long Term Incentive Warrants or a unit or the components thereof) and regarding the risks associated with an allocation of the purchase price of a unit between the ordinary share and the one-half of a Series A Warrant that comprised a unit that is inconsistent with any allocation of the purchase price that we may make. The balance of this discussion assumes that the characterization of the Long Term Incentive Warrants as compensatory warrants and of the units (and the components thereof) and any allocation of the purchase price of a unit, in each case as described above, are respected for U.S. federal income tax purposes.

U.S. Holders

Taxation of Cash Distributions

Subject to the passive foreign investment company, or PFIC, rules discussed below, a U.S. Holder generally will be required to include in gross income as ordinary income the amount of any cash dividend paid in respect of our ordinary shares. A cash distribution on our ordinary shares generally will be treated as a dividend for U.S. federal income tax purposes to the extent the distribution is paid out of our current or accumulated earnings and profits (as determined for U.S. federal income tax purposes). Such dividend generally will not be eligible for the dividends-received deduction generally allowed to U.S. corporations in respect of dividends received from other U.S. corporations. The portion of such cash distribution, if any, in excess of such earnings and profits will be applied against and reduce (but not below zero) the U.S. Holder's adjusted tax basis in the ordinary shares. Any remaining excess generally will be treated as gain from the sale or other taxable disposition of such ordinary shares.

With respect to non-corporate U.S. Holders, any such cash dividends may be subject to U.S. federal income tax at the lower applicable regular long term capital gains tax rate (see "— Taxation on the Disposition of Ordinary Shares or the Series A Warrants" below) provided that (a) our ordinary shares are readily tradable on an established securities market in the United States or we are eligible for the benefits of the United States-Israel Tax Treaty, (b) we are not a PFIC, as discussed below, for either the taxable year in which the dividend was paid or the preceding taxable year, and (c) certain holding period requirements are met. Therefore, if our ordinary shares are not readily tradable on an established securities market, and we are not eligible for the benefits of the United States-Israel Tax Treaty, then cash dividends paid by us to non-corporate U.S. Holders will not be subject to U.S. federal income tax at the lower regular long term capital gains tax rate. Under published IRS authority, shares are considered for purposes of clause (a) above to be readily tradable on an established securities market in the United States only if they are listed on certain exchanges, which presently include the NASDAQ Capital Market. Although our ordinary shares are currently listed and traded on the NASDAQ Capital Market, U.S. Holders nevertheless should consult their own tax advisors regarding the availability of the lower rate for any cash dividends paid with respect to our ordinary shares.

Dividends paid to a U.S. Holder with respect to our ordinary shares generally will be foreign source income, which may be relevant in calculating such U.S. Holder's foreign tax credit limitations. Subject to certain conditions and limitations, Israeli tax withheld on dividends may be deducted from such U.S. Holder's taxable income or credited against such U.S. Holder's U.S. federal income tax liability. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends that we distribute generally should constitute "passive category income," or, in the case of certain U.S. Holders, "general category income." A foreign tax credit for foreign taxes imposed on distributions may be denied if a U.S. Holder does not satisfy certain minimum holding period requirements. The rules relating to the determination of the foreign tax credit are complex, and U.S. Holders should consult their tax advisors to determine whether and to what extent they will be entitled to this credit.

Adjustments with Respect to Warrants

The terms of each Series A Warrant and Long Term Incentive Warrant provide for an adjustment to the number of ordinary shares for which the warrant may be exercised or to the exercise price of the warrant in certain events. An adjustment that has the effect of preventing dilution generally is not taxable. However, the U.S. Holders of the Series A Warrants would be treated as receiving a constructive distribution from us if, for example, the adjustment increases the warrant holders' proportionate interest in our assets or earnings and profits (e.g., through a decrease in the exercise price of the Series A Warrants) as a result of a distribution of cash to the holders of our ordinary shares, which is taxable to the U.S. Holders of such ordinary shares as described under "— Taxation of Cash Distributions," above. Such constructive distribution would be subject to tax as described under that section in the same manner as if the U.S.

Holders of the Series A Warrants received a cash distribution from us equal to the fair market value of such increased interest. While not clear, the U.S. Holders of the Long Term Incentive Warrants may be subject to a similar tax treatment in respect of any such constructive distribution, or, alternatively, if such warrants are treated as compensatory warrants, such holders may be deemed to have additional compensation income either at the time of the adjustment or upon the exercise of the Long Term Incentive Warrants. U.S. Holders of Long Term Incentive Warrants are urged to consult their own tax advisors on this issue.

108

Taxation on the Disposition of Ordinary Shares or Series A Warrants

Upon a sale or other taxable disposition of our ordinary shares or the Series A Warrants, and subject to the PFIC rules discussed below, a U.S. Holder generally will recognize capital gain or loss in an amount equal to the difference between the amount realized and the U.S. Holder's adjusted tax basis in the securities.

The regular U.S. federal income tax rate on capital gains recognized by U.S. Holders generally is the same as the regular U.S. federal income tax rate on ordinary income, except that long term capital gains recognized by non-corporate U.S. Holders generally are subject to U.S. federal income tax at a maximum regular rate of 20%. Capital gain or loss will constitute long term capital gain or loss if the U.S. Holder's holding period for the securities exceeds one year. The deductibility of capital losses is subject to various limitations. Any such gain or loss that a U.S. Holder recognizes generally will be treated as U.S. source income or loss for foreign tax credit limitation purposes.

If an Israeli capital gains tax applies to any gains from the disposition of our ordinary shares or the Series A Warrants by a U.S. Holder, as discussed in "Israeli Tax Considerations and Government Programs – Taxation of our Shareholders" above, such tax may be treated as a foreign tax eligible for a deduction from such holder's U.S. federal taxable income or a foreign tax credit against such holder's U.S. federal income tax liability (subject to certain conditions and limitations). In addition, if such Israeli tax applies to any such gain, a U.S. Holder may be entitled to certain benefits under the United States-Israel Tax Treaty, if such holder is considered a resident of the United States for purposes of, and otherwise meets the requirements of, the United States-Israel Tax Treaty. U.S. Holders should consult their own tax advisors regarding the deduction or credit for any such Israeli tax and their eligibility for the benefits of the United States-Israel Tax Treaty.

Additional Taxes

U.S. Holders that are individuals, estates or trusts and whose income exceeds certain thresholds generally will be subject to a 3.8% Medicare contribution tax on unearned income, including, without limitation, dividends on, and gains from the sale or other taxable disposition of, our ordinary shares or the Series A Warrants, subject to certain limitations and exceptions. U.S. Holders should consult their own tax advisors regarding the effect, if any, of such tax on their ownership and disposition of our ordinary shares or the Series A Warrants.

Exercise or Lapse of a Series A Warrant

Subject to the PFIC rules discussed below, a U.S. Holder generally will not recognize gain or loss upon the exercise of a Series A Warrant for cash. An ordinary share acquired pursuant to the exercise of a Series A Warrant for cash generally will have a tax basis equal to the U.S. Holder's tax basis in the Series A Warrant, increased by the amount paid to exercise the Series A Warrant. The holding period of such ordinary share generally would begin on the day after the date of exercise of the Series A Warrant. If a Series A Warrant is allowed to lapse unexercised, a U.S. Holder generally will recognize a capital loss equal to such holder's tax basis in the Series A Warrant.

The tax consequences of a cashless exercise of Series A Warrants are not clear under current tax law. A cashless exercise may be tax-free, either because it is not a realization event (i.e., not a transaction in which gain or loss is realized) or because the transaction is treated as a recapitalization for U.S. federal income tax purposes. In either tax-free situation, a U.S. Holder's tax basis in the ordinary shares received would equal the U.S. Holder's basis in the Series A Warrants. If the cashless exercise were treated as not being a realization event, the U.S. Holder's holding period in the ordinary shares could be treated as commencing on the date following the date of exercise of the Series A Warrants. If the cashless exercise were treated as a recapitalization, the holding period of the ordinary shares received would include the holding period of the Series A Warrants.

It is also possible that a cashless exercise could be treated as a taxable exchange in which gain or loss is recognized. In such event, a U.S. Holder could be deemed to have surrendered a number of Series A Warrants with a fair market value equal to the exercise price for the number of Series A Warrants deemed exercised. For this purpose, the number of Series A Warrants deemed exercised would be equal to the number of ordinary shares issued pursuant to the cashless exercise of the Series A Warrants. In this situation, the U.S. Holder would recognize capital gain or loss in an amount equal to the difference between the fair market value of the Series A Warrants deemed surrendered to pay the exercise price and the U.S. Holder’s tax basis in such Series A Warrants deemed surrendered. Such gain or loss would be long-term or short-term depending on the U.S. Holder’s holding period in the Series A Warrants. In this case, a U.S. Holder’s tax basis in the ordinary shares received would equal the sum of the fair market value of the Series A Warrants deemed surrendered to pay the exercise price and the U.S. Holder’s tax basis in the Series A Warrants deemed exercised, and a U.S. Holder’s holding period for the ordinary shares should commence on the date following the date of exercise of the Series A Warrants. There also may be alternative characterizations of any such taxable exchange that would result in similar tax consequences, except that a U.S. Holder’s gain or loss would be short-term.

109

Due to the absence of authority on the U.S. federal income tax treatment of a cashless exercise of Series A Warrants, it is unclear which, if any, of the alternative tax consequences and holding periods described above would be adopted by the IRS or a court of law. Accordingly, U.S. Holders should consult their tax advisors regarding the tax consequences of a cashless exercise of Series A Warrants.

Exercise of Long Term Incentive Warrants

While not free from doubt, the Long Term Incentive Warrants may be treated as compensatory warrants (i.e., issued to compensate an original purchaser of units in our initial public offering for holding the ordinary shares underlying the units for a certain period of time after the closing date of our initial public offering). Based on this characterization, a U.S. Holder of the Long Term Incentive Warrants generally would recognize ordinary compensation income on the exercise of the Long Term Incentive Warrants equal to the excess of the fair market value of the ordinary shares acquired pursuant to the exercise of the Long Term Incentive Warrants over the exercise price of the Long Term Incentive Warrants. In such case, a U.S. Holder’s tax basis in the ordinary shares received should be equal to their fair market value at the time of exercise, and the holding period of such ordinary shares should begin on the date of exercise.

Passive Foreign Investment Company Rules

A foreign (i.e., non-U.S.) corporation will be a PFIC if either (a) at least 75% of its gross income in a taxable year of the foreign corporation, including its pro rata share of the gross income of any corporation in which it is considered to own at least 25% of the shares by value, is passive income, or (b) at least 50% of its assets in a taxable year of the foreign corporation, ordinarily determined based on fair market value and averaged quarterly over the year, including its pro rata share of the assets of any corporation in which it is considered to own at least 25% of the shares by value, are held for the production of, or produce, passive income. Passive income generally includes dividends, interest, rents and royalties (other than certain rents or royalties derived from the active conduct of a trade or business), and gains from the disposition of passive assets.

Our actual PFIC status for our current taxable year or any subsequent taxable year is uncertain and will not be determinable until after the end of such taxable year. Accordingly, there can be no assurance with respect to our status as a PFIC for our current taxable year or any subsequent taxable year.

If we are determined to be a PFIC for any taxable year (or portion thereof) that is included in the holding period of a U.S. Holder of our ordinary shares or Series A Warrants, and the U.S. Holder did not make a timely QEF election for our first taxable year as a PFIC in which the U.S. Holder held (or was deemed to hold) the ordinary shares, a purging election, a QEF election along with a purging election, or a mark-to-market election, each as described below, such holder generally will be subject to special rules for regular U.S. federal income tax purposes with respect to:

- any gain recognized by the U.S. Holder on the sale or other disposition of its ordinary shares or Series A Warrants; and

- any “excess distribution” made to the U.S. Holder (generally, any distributions to such U.S. Holder during a taxable year of the U.S. Holder that are greater than 125% of the average annual distributions received by such U.S. Holder in respect of the ordinary shares during the three preceding taxable years of such U.S. Holder or, if shorter, such U.S. Holder’s holding period for the ordinary shares).

Under these rules,

- the U.S. Holder's gain or excess distribution will be allocated ratably over the U.S. Holder's holding period for the ordinary shares or Series A Warrants;

- the amount allocated to the U.S. Holder's taxable year in which the U.S. Holder recognized the gain or received the excess distribution or to the period in the U.S. Holder's holding period before the first day of our first taxable year in which we qualified as a PFIC will be taxed as ordinary income;

- the amount allocated to other taxable years (or portions thereof) of the U.S. Holder and included in its holding period will be taxed at the highest ordinary tax rate in effect for that year and applicable to the U.S. Holder; and

- the interest charge generally applicable to underpayments of tax will be imposed in respect of the tax attributable to each such other taxable year of the U.S. Holder.

Although a determination as to our PFIC status is made annually, an initial determination that we are a PFIC generally will apply for subsequent years to a U.S. Holder that held (or was deemed to hold) our ordinary shares or Series A Warrants while we were a PFIC, whether or not we meet the test for PFIC status in those subsequent years. If we are determined to be a PFIC in any taxable year, and then cease to meet the test for PFIC status in a subsequent taxable year, a U.S. Holder may be able to make a purging election to eliminate this continuing PFIC status with respect to its ordinary shares in certain circumstances. A purging election generally creates a deemed sale of such ordinary shares at their fair market value on the last day of our tax year during which we qualified as a PFIC (or, in the case of a purging election made in connection with a QEF election, the first day of our taxable year in which qualify as a QEF with respect to such U.S. Holder). Any gain recognized by the purging election generally will be treated as an excess distribution subject to the special tax and interest charge rules described above. As a result of the purging election, the U.S. Holder generally will increase the adjusted basis in its ordinary shares by the amount of gain recognized and will also have a new holding period in its ordinary shares for purposes of the PFIC rules.

In general, if we are determined to be a PFIC, a U.S. Holder may also avoid the PFIC tax consequences described above with respect to the ordinary shares by making a timely QEF election (or a QEF election along with a purging election). Pursuant to the QEF election, a U.S. Holder generally will be required to include in income its pro rata share of our net capital gains (as long term capital gain) and other earnings and profits (as ordinary income), on a current basis, in each case whether or not distributed, in the taxable year of the U.S. Holder in which or with which our taxable year ends if we are treated as a PFIC for that taxable year. However, a U.S. Holder may make a QEF election only if we agree to provide certain tax information to such holder annually. At this time, we do not intend to provide U.S. Holders with such information as may be required to make a QEF election effective.

Alternatively, if a U.S. Holder, at the close of its taxable year, owns ordinary shares in a PFIC that are treated as marketable stock, the U.S. Holder may make a mark-to-market election with respect to such ordinary shares for such taxable year. If the U.S. Holder makes a valid mark-to-market election for the first taxable year of the U.S. Holder in which the U.S. Holder holds (or is deemed to hold) the ordinary shares and for which we are determined to be a PFIC, such holder generally will not be subject to the PFIC rules described above with respect to its ordinary shares as long as such shares continue to be treated as marketable stock. Instead, in general, the U.S. Holder will include as ordinary income for each year that we are treated as a PFIC the excess, if any, of the fair market value of its ordinary shares at the end of its taxable year over the adjusted tax basis in its ordinary shares. The U.S. Holder also will be allowed to take an ordinary loss in respect of the excess, if any, of the adjusted tax basis of its ordinary shares over the fair market value of its ordinary shares at the end of its taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). The U.S. Holder’s adjusted tax basis in its ordinary shares will be adjusted to reflect any such income or loss amounts, and any further gain recognized on a sale or other taxable disposition of the ordinary shares in a taxable year in which we are treated as a PFIC generally will be treated as ordinary income. Special tax rules may also apply if a U.S. Holder makes a mark-to-market election for a taxable year after the first taxable year in which the U.S. Holder holds (or is deemed to hold) our ordinary shares and for which we are determined to be a PFIC. Currently, a mark-to-market election may not be made with respect to warrants.

The mark-to-market election is available only for stock that is regularly traded on a national securities exchange that is registered with the U.S. Securities and Exchange Commission, including the NASDAQ Capital Market, or on a foreign exchange or market that the IRS determines has rules sufficient to ensure that the market price represents a legitimate and sound fair market value. Although our ordinary shares are currently listed and traded on the NASDAQ Capital Market, U.S. Holders nevertheless should consult their own tax advisors regarding the availability and tax consequences of a mark-to-market election with respect to our ordinary shares under their particular circumstances.

If we are a PFIC and, at any time, have a foreign subsidiary that is classified as a PFIC, a U.S. Holder of our ordinary shares generally should be deemed to own a portion of the shares of such lower-tier PFIC, and generally could incur liability for the deferred tax and interest charge described above if we receive a distribution from, or dispose of all or part of our interest in, or the U.S. Holder were otherwise deemed to have disposed of an interest in, the lower-tier PFIC. A mark-to-market election generally would not be available with respect to such a lower-tier PFIC. U.S. Holders are urged to consult their own tax advisors regarding the tax issues raised by lower-tier PFICs.

A U.S. Holder that owns (or is deemed to own) ordinary shares in a PFIC during any taxable year of the U.S. Holder may have to file an IRS Form 8621 (whether or not a mark-to-market election is or has been made) with such U.S. Holder's U.S. federal income tax return and provide such other information as may be required by the U.S. Treasury Department.

The rules dealing with PFICs and purging and mark-to-market elections are very complex and are affected by various factors in addition to those described above. Accordingly, U.S. Holders of our securities should consult their own tax advisors concerning the application of the PFIC rules to our securities under their particular circumstances.

Non-U.S. Holders

Cash dividends paid or deemed paid to a Non-U.S. Holder with respect to our ordinary shares generally will not be subject to U.S. federal income tax unless such dividends are effectively connected with the Non-U.S. Holder's conduct of a trade or business within the United States (and, if required by an applicable income tax treaty, are attributable to a permanent establishment or fixed base that such holder maintains or maintained in the United States).

In addition, a Non-U.S. Holder generally will not be subject to U.S. federal income tax on any gain attributable to a sale or other taxable disposition of our securities unless such gain is effectively connected with its conduct of a trade or business in the United States (and, if required by an applicable income tax treaty, is attributable to a permanent establishment or fixed base that such holder maintains or maintained in the United States) or the Non-U.S. Holder is an individual who is present in the United States for 183 days or more in the taxable year of such sale or other disposition and certain other conditions are met (in which case, such gain from U.S. sources generally is subject to U.S. federal income tax at a 30% rate or a lower applicable tax treaty rate).

Dividends and gains that are effectively connected with the Non-U.S. Holder's conduct of a trade or business in the United States (and, if required by an applicable income tax treaty, are attributable to a permanent establishment or fixed base that such holder maintains or maintained in the United States) generally will be subject to regular U.S. federal income tax at the same regular U.S. federal income tax rates as applicable to a comparable U.S. Holder and, in the case of a Non-U.S. Holder that is a corporation for U.S. federal income tax purposes, may also be subject to an additional branch profits tax at a 30% rate or a lower applicable tax treaty rate.

As in the case of a U.S. Holder, as described under "U.S. Holders — Exercise of Long Term Incentive Warrants" and " — Adjustments with Respect to Warrants," a Non-U.S. Holder also may have compensation income for U.S. federal income tax purposes on the exercise of (or on certain adjustments in respect of) the Long Term Incentive Warrants. A Non-U.S. Holder may be subject to U.S. federal income tax (subject to reduction or elimination by an applicable income tax treaty) with respect to such compensation income to the extent such income is deemed to be attributable to the performance (or the refraining from the performance) of services in the United States or is otherwise considered to be U.S. source income for U.S. federal income tax purposes. Non-U.S. Holders are urged to consult their own tax advisors as to the U.S. federal income tax consequences that may arise with respect to the Long Term Incentive Warrants.

Backup Withholding and Information Reporting

In general, information reporting for U.S. federal income tax purposes should apply to distributions made on our securities within the United States to a U.S. Holder (other than an exempt recipient) and to the proceeds from sales and other dispositions of our securities by a U.S. Holder (other than an exempt recipient) to or through a U.S. office of a broker. Payments made (and sales and other dispositions effected at an office) outside the United States will be subject to information reporting in limited circumstances. In addition, certain information concerning a U.S. Holder's adjusted tax basis in its securities and adjustments to that tax basis and whether any gain or loss with respect to such securities is long term or short term also may be required to be reported to the IRS, and certain holders may be required to file an IRS Form 8938 (Statement of Specified Foreign Financial Assets) to report their interest in our securities.

Moreover, backup withholding of U.S. federal income tax at a rate of 28% generally will apply to dividends paid on our securities to a U.S. Holder (other than an exempt recipient) and the proceeds from sales and other dispositions of our securities by a U.S. Holder (other than an exempt recipient), in each case who:

- fails to provide an accurate taxpayer identification number;
- is notified by the IRS that backup withholding is required; or
- in certain circumstances, fails to comply with applicable certification requirements.

A Non-U.S. Holder generally may eliminate the requirement for information reporting and backup withholding by providing certification of its foreign status, under penalties of perjury, on a duly executed applicable IRS Form W-8 or by otherwise establishing an exemption.

112

Backup withholding is not an additional tax. Rather, the amount of any backup withholding will be allowed as a credit against a U.S. Holder's or a Non-U.S. Holder's U.S. federal income tax liability and may entitle such holder to a refund, provided that certain required information is timely furnished to the IRS.

Holders are urged to consult their own tax advisors regarding the application of backup withholding and the availability of and procedures for obtaining an exemption from backup withholding in their particular circumstances.

F. Dividends and paying agents

Not applicable.

G. Statement by experts

Not applicable.

H. Documents on display

You may inspect our securities filings, including this Annual Report and the exhibits and schedules thereto, without charge at the offices of the SEC at 100 F Street, N.E., Washington, D.C. 20549. You may obtain copies of all or any part of the Annual Report from the Public Reference Section of the SEC, 100 F Street, NE, Washington, D.C. 20549 upon the payment of the prescribed fees. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website at www.sec.gov that contains reports, proxy and information statements and other information regarding registrants like us that file electronically with the SEC. You can also inspect the Annual Report on this website.

A copy of each document (or a translation thereof to the extent not in English) concerning our company that is referred to in this Annual Report is available for public view (subject to confidential treatment of certain agreements pursuant to applicable law) at our principal executive offices at Check-Cap Building, Abba Hushi Avenue, P.O. Box 1271, Isfiya, 30090, Mount Carmel, Israel.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Exchange Rate Risk

Some of our assets and liabilities are affected by fluctuations in the exchange rate between the U.S. dollar and the NIS and between the U.S. dollar and the Euro. For example, salaries and related expenses for Israeli employees are paid in NIS and some of our suppliers are located in Europe and require payment in Euros.

As of December 31, 2014, our total assets and liabilities linked to the NIS amounted to $1.1 million and $1.3 million, respectively. A 10% depreciation of the dollar in relation to the NIS would cause an exchange rate loss of $22,000.

As of December 31, 2014, we had no assets linked to the Euro and our total liabilities linked to the Euro amounted to 151,000. A 10% depreciation of the dollar in relation to the Euro would cause an exchange rate loss of $15,000.

During the year ended December 31, 2014, the exchange rate between the U.S. dollar and the NIS increased by 12.0% and the exchange rate between the U.S. dollar and the EURO increased by 13.4%. During the year ended December 31, 2013, the exchange rate between the U.S. dollar and the NIS decreased by 7.02% and the exchange rate between the U.S. dollar and the EURO increased by 4.31%. During the year ended December 31, 2012, the exchange rate between the U.S. dollar and the NIS decreased by 2.30% and the exchange rate between the U.S. dollar and the EURO increased by 1.96%. To date, we have not hedged the risks associated with fluctuations in currency exchange rate.

Interest Rate Risk

Our obligation to pay royalties to the OCS is linked to LIBOR and we are therefore exposed to changes in LIBOR.

As of December 31, 2014, we reported a total liability of $1.9 million with respect to our obligation to pay royalties to the OCS. A 25% increase in LIBOR would cause a financing loss of $16,000, based on the LIBOR as of December 31, 2014, which was 0.60%.

In addition, we intend to invest our cash balances, including certain of the net proceeds from our initial public offering and concurrent private placement pending their ultimate use, primarily in bank deposits and securities issued by the U.S. and Israeli governments. We are exposed to market risks resulting from changes in interest rates relating primarily to our financial investments in cash and deposits. We do not use derivative financial instruments to limit exposure to interest rate risk. Our interest income may decline in the future as a result of changes in the financial markets; however, we believe any such potential loss would be immaterial to us.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Use of Proceeds

The following “Use of Proceeds” information relates to our initial U.S. public offering of 2,000,000 units, each unit consisted of one ordinary share and one-half of a Series A Warrant to purchase one ordinary share. Each unit was issued with one and one-half non-transferrable Long Term Incentive Warrants. Each whole Series A Warrant entitles the holder to purchase one ordinary share at an exercise price of $7.50. The registration statement on Form F-1 (File No. 333-201250) for our initial public offering was declared effective by the SEC on February 18, 2015 and on February 24, 2015, we completed our initial public offering. Chardan Capital Markets, LLC and Maxim Group LLC acted as joint book-running managers for the initial public offering and Feltl and Company acted as a co-manager for the initial public offering. We received net proceeds (after deducting underwriting discounts and commissions and other expenses related to the offering) of approximately $9.4 million. None of the above expenses included direct or indirect payments to directors or officers of our company or their associates, persons owning 10% or more of our equity securities or our affiliates.

We granted the underwriters in the initial public offering a 45-day over-allotment option to purchase up to 300,000 additional units (together with an accompanying 450,000 Long Term Incentive Warrants) from us to cover over-allotments. On March 6, 2015, the option to purchase additional 100,000 units was partially exercised. On March 18, 2015, the units were separated into one ordinary share and one-half of a Series A Warrant to purchase one ordinary share and the units ceased to exist. On April 6, 2015, the option to purchase additional 150,000 ordinary shares and 75,000 Series A Warrants was partially exercised.

The aggregate offering price of the securities sold in the initial public offering (including the over-allotment option) was approximately $13.5 million. The total expenses of the offering, including underwriting discounts and commissions, were approximately $2.7 million. The net proceeds we received from the initial public offering (including the over-allotment option) was approximately $10.8 million.

Concurrently with the consummation of our initial public offering, we completed a private placement of approximately 2,000,000 units, or the Private Placement, at a purchase price per unit equal to the public offering price, in accordance with Regulation S under the Securities Act of 1933, as amended, or the Securities Act, or Regulation D under the Securities Act, to certain investors including certain of our affiliates. Each unit sold in the Private Placement was issued with one and one-half non-transferrable Long Term Incentive Warrants. The issuance and sale of such units and Long Term Incentive Warrants were not registered under the Securities Act. We received approximately $10.9 million in aggregate net proceeds from the Private Placement.

114

From February 24, 2015 to April 27, 2015, we used approximately $2.5 million of the net proceeds from our initial public offering and the concurrent Private Placement, of which approximately $1.4 million for general corporate purposes and $1.1 million to pay off the loan we received from Bank Leumi, and as of April 27, 2015, we had approximately $19.2 million left from the net proceeds of the initial public offering and the concurrent Private Placement. We intend to use the net proceeds we received from our initial public offering as disclosed in our Registration Statement on Form F-1.

ITEM 15. CONTROLS AND PROCEDURES

(a) Disclosure controls and procedures

An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, regarding the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15 under the Exchange Act) as of the end of the December 31, 2014. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, have concluded that our disclosure controls and procedures as of December 31, 2014 were effective and that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

(b)-(c) Management’s annual report on internal control over financial reporting and attestation report of the registered public accounting firm

This annual report does not include a report of management’s assessment regarding internal control over financial reporting or an attestation report of the company’s registered public accounting firm due to a transition period established by rules of the Securities and Exchange Commission for newly public companies.

(d) Changes in internal control over financial reporting

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the year ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. It should be noted that while our management believes that our disclosure controls and procedures provide a reasonable level of assurance; our management does not expect that our disclosure controls and procedures or internal financial controls will prevent all errors or fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT.

Our Board of Directors has determined that Mr. Yuval Yanai, a member of our audit committee is an audit committee financial expert as defined by rules of the U.S. Securities and Exchange Commission and is an independent director under NASDAQ Listing Rules.

ITEM 16B. CODE OF ETHICS.

We have adopted a Code of Business Conduct and Ethics that applies to all of our directors and employees, including our chief executive officer, chief financial officer, controller or principal accounting officer, or other persons performing similar functions, which complies with the “code of ethics” contemplated by Item 16B of Form 20-F promulgated by the U.S. Securities and Exchange Commission. A copy of our Code of Business Conduct and Ethics is available on our website at http://ir.check-cap.com/corporate-governance. If we make any amendment to the Code of Business Conduct and Ethics or grant any waivers, including any implicit waiver, from a provision of the code of ethics, we will disclose the nature of such amendment or waiver on our website to the extent required by the rules and regulations of the U.S. Securities and Exchange Commission. Under Item 16B of the U.S. Securities and Exchange Commission's Form 20-F, if a waiver or amendment of the Code of Business Conduct and Ethics applies to our principal executive officer, principal financial officer, principal accounting officer or controller and relates to standards promoting any of the values described in Item 16B(b) of Form 20-F, we will disclose such waiver or amendment on our website in accordance with the requirements of Instruction 4 to such Item 16B.

115

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The following table represents aggregate fees billed to us for professional services rendered for fiscal years ended December 31, 2014 and 2013 by Brightman Almagor Zohar & Co., a member firm of Deloitte Touche Tohmatsu, an independent registered accounting firm.

	2014	2013
Audit Fees(1)	$60,000	$40,000
Audit-Related Fees(2)	$80,000	$-
Tax Fees(3)	$10,000	$10,000
Total	$150,000	$50,000

(1) The audit fees for the years ended December 31, 2014 and 2013 were for professional services rendered for the audits of our financial statements, consents and in connection with filings with the U.S. Securities and Exchange Commission.
(2) Audit-related fees for the year ended December 31, 2014 are for services rendered by our auditors in connection with our Registration Statement on Form F-1 related to our initial public offering.
(3) Tax fees for the years ended December 31, 2014 and 2013 were for services related to tax compliance, including the preparation of tax returns and tax planning and tax advice.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES.

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS.

Not applicable.

ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT.

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE.

Under the Israeli Companies Law, companies incorporated under the laws of the State of Israel whose shares are publicly traded, including companies with shares listed on the NASDAQ Capital Market, are considered public companies under Israeli law and are required to comply with various corporate governance requirements relating to such matters as external directors, the audit committee, the compensation committee and an internal auditor. These requirements are in addition to the corporate governance requirements imposed by the Listing Rules of the NASDAQ Stock Market and other applicable provisions of U.S. securities laws to which we became subject (as a foreign private issuer) upon the closing of our initial public offering and the listing of our securities on the NASDAQ Capital Market. Under the Listing Rules of the NASDAQ Stock Market, a foreign private issuer, such as us, may generally follow its home country rules of corporate governance in lieu of the comparable requirements of the Listing Rules of the NASDAQ Stock Market, except for certain matters including (among others) the composition and responsibilities of the audit committee and the independence of its members within the meaning of the rules and regulations of the U.S. Securities and Exchange Commission. We currently rely on this “home country practice exemption” solely with respect to the following items:

•

Nomination of our directors. Israeli law and our amended and restated articles of association do not require director nominations to be made by a nominating committee of our board of directors consisting solely of independent directors, as required under the Listing Rules of the NASDAQ Stock Market. In accordance with Israeli law and practice, directors are recommended by our board of directors for election by our shareholders (other than directors elected by our board of directors to fill a vacancy).

- Compensation of officers. Israeli law and our amended and restated articles of association do not require that the independent members of our board of directors (or a compensation committee composed solely of independent members of our board of directors) determine an executive officer's compensation, as is generally required under the Listing Rules of the NASDAQ Stock Market with respect to the chief executive officer and all other executive officers. For details regarding the approvals required under the Israeli Companies Law for the approval of compensation of the chief executive officer, all other executive officers and directors, see Item 6C "Directors, Senior Management and Employees — Board Practices — Approval of Related Party Transactions under Israeli Law — Disclosure of Personal Interests of an Office Holder and Approval of Certain Transactions."

- Shareholder approval. We will seek shareholder approval for all corporate actions requiring such approval under the requirements of the Israeli Companies Law, rather than seeking approval for corporate actions in accordance with NASDAQ Listing Rule 5635. In particular, under the NASDAQ Listing Rule, shareholder approval is generally required for: (i) an acquisition of shares/assets of another company that involves the issuance of 20% or more of the acquirer's shares or voting rights or if a director, officer or 5% shareholder has greater than a 5% interest (or such persons collectively have a 10% or greater interest) in the target company or the assets to be acquired or the consideration to be received and the present or potential issuance of ordinary shares, or securities convertible into or exercisable for ordinary shares, could result in an increase in outstanding common shares or voting power of 5% or more; (ii) the issuance of shares leading to a change of control; (iii) adoption/amendment of a stock option or purchase plan or other equity compensation arrangements, pursuant to which stock may be acquired by officers, directors, employees or consultants (with certain limited exception); and (iv) issuances of 20% or more of the shares or voting rights (including securities convertible into, or exercisable for, equity) of a listed company via a private placement (and/or via sales by directors/officers/5% shareholders) if such equity is issued (or sold) at below the greater of the book or market value of shares. By contrast, under the Israeli Companies Law, the adoption of, and material changes to, equity-based compensation plans generally require the approval of the board of directors (for details regarding the approvals required under the Israeli Companies Law for the approval of compensation of the chief executive officer, all other executive officers and directors, see Item 6C "Directors, Senior Management and Employees — Board Practices — Approval of Related Party Transactions under Israeli Law — Disclosure of Personal Interests of an Office Holder and Approval of Certain Transactions).

- Quorum requirement. Under our amended and restated articles of association and as permitted under the Israeli Companies Law, a quorum for any meeting of shareholders shall be the presence of at least two shareholders present in person, by proxy or by a written ballot, who hold at least 25% of the voting power of our shares (or if a higher percentage is required by law, such higher percentage) instead of 33 1/3% of the issued share capital required under the NASDAQ Listing Rules. If the meeting was adjourned for lack of a quorum, at the adjourned meeting, at least two shareholders present in person or by proxy shall constitute a quorum, unless the meeting of shareholders was convened at the demand of shareholders, in which case, the quorum shall be the presence of one or more shareholders holding at least 5% of our issued share capital and at least one percent of the voting power of our shares, or one or more shareholders with at least 5% of the voting power of our shares.

Except as stated above, we currently intend to comply with the rules generally applicable to U.S. domestic companies listed on NASDAQ. We may in the future decide to use the foreign private issuer exemption with respect to some or all of the other NASDAQ corporate governance rules. Following our home country governance practices, as opposed to the requirements that would otherwise apply to a company listed on NASDAQ, may provide less protection than is accorded to investors under NASDAQ listing requirements applicable to domestic issuers. For more information, see Item 3D "Key Information — Risk factors — Risks Related to the Company — As a foreign private issuer, we are permitted, and intend, to follow certain home country corporate governance practices instead of otherwise applicable NASDAQ requirements, which may result in less protection than is accorded to investors under rules applicable to domestic U.S. issuers."

ITEM 16H. MINE SAFETY DISCLOSURE.

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

Financial Statements are set forth under Item 18.

ITEM 18. FINANCIAL STATEMENTS

Our Financial Statements beginning on pages F-1 through F-41, as set forth in the following index, are hereby incorporated herein by reference. These Financial Statements are filed as part of this Annual Report.

ITEM 19. EXHIBITS

No.	Description
1.1*	Articles of Association of the Registrant
2.1*	Form of Registrant's Ordinary Share Certificate
2.2*	Form of Unit Certificate
2.3*	Form of Series A Warrant Certificate (included in Exhibit 2.5)
2.4*	Form of Long Term Incentive Warrant Certificate (included in Exhibit 2.5)
2.5*	Form of Warrant Agreement between Check-Cap Ltd. and American Stock Transfer & Trust Company LLC, as Warrant Agent
4.1*	Form of Underwriter Warrants
4.2*	2006 Unit Option Plan and Amendments thereto
4.3*	Amended and Restated Shareholders Agreement dated as of October 14, 2014 by and among Check-Cap Ltd. and the shareholders parties thereto
4.4*	Amendment to Amended and Restated Shareholders Agreement to be dated as of , 2015 by and among Check-Cap Ltd. and the shareholders parties thereto
4.5*	Form of Series C-1 preferred shares purchase warrant
4.6*	Forms of Series C-2 preferred shares purchase warrant
4.7*	Form of Series D-1 preferred shares purchase warrant
4.8*	Form of Series D-2 preferred shares purchase warrant
4.9*	Forms of Anti-Dilution Warrants
4.10*	Asset Transfer Agreement, dated as of May 31, 2009 by and between Check-Cap Ltd. and Check-Cap LLC.
4.11*	The Agreement for ASIC Design and Development dated November 26, 2009 by and between Check-Cap Ltd. and Politechnico di Milano
4.12*	Form of Indemnification Agreement
4.13*	Credit Line Agreement, dated as of August 20, 2014 by and among Check-Cap Ltd. and certain Lenders named therein
4.14*	Form of Ordinary Shares Warrant Certificate issued pursuant to a certain Credit Line Agreement dated as of August 20, 2014
4.15*	Forms of Ordinary Shares Warrant Certificate issued to the Pontifax entities
4.16*	Addendum to Credit Line Agreement dated as of October 14, 2014 by and among Check-Cap Ltd. and certain Lenders named therein
4.17*	Second Addendum to Credit Line Agreement dated as of December 22, 2014 by and among Check-Cap Ltd. and certain Lenders named therein
4.18*	Credit Agreement dated as of January 4, 2015 by and between Check-Cap Ltd. and Bank Leumi le-Israel B.M
4.19*	English translation of the Secured Debenture issued on January 4, 2015 by Check-Cap Ltd. in favor of Bank Leumi le-Israel B.M
12.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a)
12.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a)
13.1	

	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1	Consent of Brightman Almagor Zohar & Co., independent registered public accounting firm

* Incorporated by reference to the Registration Statement on Form F-1 of the Registrant (File No. 333-201250).

118

SIGNATURES

The Registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

CHECK-CAP LTD.

Date: April 29, 2015

By: /s/ Guy Neev
Name: Guy Neev
Title: Chief Executive Officer and Director(Principal Executive Officer)

By: /s/ Lior Torem
Name: Lior Torem
Title: (Principal Financial Officer and Principal Accounting Officer)

119

CHECK CAP LTD.

FINANCIAL STATEMENTS AS OF DECEMBER 31, 2014

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of
Check-Cap Ltd.
Isfiya, Israel

We have audited the accompanying statements of financial position of Check-Cap Ltd. (hereafter- "the Company") as of December 31, 2014 and 2013, and the statements of profit or loss and other comprehensive income, statements of changes in equity (deficit), and statements of cash flows for each of the three years in the period ended December 31, 2014. 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 misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its 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 internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, such financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2014 and 2013, and the results of operations, and cash flows for each of the three years in the period ended December 31, 2014, in conformity with International Financial Reporting Standards as issued by International Accounting Standards Board (IFRS).

The Company is in the development stage as of December 31, 2014. As discussed in Note 1B to the financial statements, successful completion of the Company's development program and, ultimately, the attainment of profitable operations is dependent upon future events, including obtaining adequate financing to fulfill its development activities and achieving a level of sales adequate to support the Company's cost structure.

/s/ Brightman Almagor Zohar & Co.
Brightman Almagor Zohar & Co.
Certified Public Accountants
A Member Firm of Deloitte Touche Tohmatsu

April 29, 2015
Tel Aviv, Israel

CHECK CAP LTD
STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2014	2013
		in USD thousands	
Assets			
Current assets			
Cash and cash equivalents	5	1,075	4,975
Restricted deposit		46	46
Receivables on account of share options	11E6	4,800	-
Other current assets	6	117	130
Total current assets		6,038	5,151
Non-current assets			
Property and equipment, net	7	191	224
Deferred issuance costs		1,556	-
Total non-current assets		1,747	224
Total assets		7,785	5,375
Liabilities and shareholders' equity			
Current liabilities			
Trade accounts payable		333	221
Other current liabilities		1,369	141
Employee benefits	8A	1,122	658
Total current liabilities		2,824	1,020
Non-current liabilities			
Royalties provision	10A	2,509	2,577
Other financial liabilities	11E1	225	587
Total non-current liabilities		2,734	3,164
Shareholders' equity			
Preferred share capital		226	226
Ordinary share capital		53	53
Premium on preferred shares		21,167	21,167
Share options	11E6	6,593	1,793
Premium on ordinary shares		6	6
Capital reserve for ordinary share-based payment		743	431
Accumulated deficit		(26,561)	(22,485)
Total shareholders' equity		2,227	1,191
Total liabilities and shareholders' equity		7,785	5,375

April 29, 2015

Date of approval of financial statements	Tomer Kariv- Chairman of the Board of Directors	Guy Neev-CEO	Lior Torem-CFO

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

CHECK CAP LTD
STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Year ended December 31, 2014	2013	2012
		in USD thousands		
Research and development expenses, net	13	3,108	2,662	2,692
General and administrative expenses	14	1,702	1,090	1,203
Other expenses (income)		-	(10)	13
Operating loss		4,810	3,742	3,908
Finance income	15	(788)	(63)	(416)
Finance expenses	16	54	316	229
Finance expenses (income), net		(734)	253	(187)
Loss for the year		4,076	3,995	3,721
Total comprehensive loss for year		4,076	3,995	3,721
Loss per ordinary share (in USD) Basic and diluted		2.77	3.66	3.49
Weighted average number of ordinary shares outstanding - basic and diluted (in thousands)	17	2,181	1,627	1,627

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

CHECK CAP LTD
STATEMENTS OF CHANGES IN EQUITY

	Preferred share capital	Ordinary share capital	Premium on preferred shares	Share options	Premium on ordinary shares	Capital reserve for ordinary share based payment	Accumulated deficit	Total
For the year ended December 31, 2014								
Balance - January 1, 2014	226	53	21,167	1,793	6	431	(22,485)	1,191
Ordinary share-based payment	-	-	-	-	-	312	-	312
Issuance of share options as part of the CLA	-	-	-	4,800	-	-	-	4,800
Comprehensive loss for the year	-	-	-	-	-	-	(4,076)	(4,076)
Total shareholders' equity as of December 31, 2014	226	53	21,167	6,593	6	743	(26,561)	2,227
For the year ended December 31, 2013								
Balance - January 1, 2013	226	53	21,167	1,793	6	374	(18,490)	5,129
Ordinary share-based payment	-	-	-	-	-	57	-	57
Comprehensive loss for the year	-	-	-	-	-	-	(3,995)	(3,995)
Total shareholders' equity as of December 31, 2013	226	53	21,167	1,793	6	431	(22,485)	1,191
For the year ended December 31, 2012								
Balance - January 1, 2012	219	53	20,145	1,793	3	343	(14,769)	7,787
Issue of preferred D3 shares, net	7	-	1,022	-	-	-	-	1,029
Issue of ordinary shares under employee share option plan	-	(*)	-	-	3	-	-	3

Recognition of share-based payment	-	-	-	-		31	-	31
Comprehensive loss for the year	-	-	-	-	-	-	(3,721)	(3,721)
Total shareholders' equity as of December 31, 2012	226	53	21,167	1,793	6	374	(18,490)	5,129

(*) Less than NIS 1 thousands.

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

F-6

CHECK CAP LTD
STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2014	2013	2012
	in USD thousands		
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the year	(4,076)	(3,995)	(3,721)
Net gain (loss) arising on financial assets and liabilities designated as at fair value through profit or loss	(362)	55	116
Depreciation and amortization	78	77	73
Ordinary share-based compensation	312	57	31
Royalties provision	(754)	(116)	(464)
Changes in assets and liabilities items:			
Increase (decrease) in other current assets	(1,543)	34	25
Increase (decrease) in trade accounts payable and other current liabilities	1,340	82	(385)
Increase in employees benefits	464	149	165
Net cash used in operating activities	(4,541)	(3,657)	(4,160)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	(45)	(45)	(105)
Proceeds from disposal of property and equipment	-	-	16
Increase in restricted deposit	-	(3)	(4)
Decrease (increase) short-term investment	-	3,450	(3,450)
Net cash (used in) generated from investing activities	(45)	3,402	(3,543)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of preferred shares, net	-	-	1,029
Receipt of loan from the Office of Chief Scientist	558	647	541
Receipt of loan from BIRD	127	-	-
Proceeds from issuance of ordinary shares	-	-	3
Net cash generated from financing activities	685	647	1,573
Effect of exchange rate changes on cash and cash equivalents	1	-	(7)
Net increase (decrease) in cash and cash equivalents	(3,900)	392	(6,137)
Cash and cash equivalents at the beginning of the year	4,975	4,583	10,720
Cash and cash equivalents at the end of the year	1,075	4,975	4,583
Non-Cash transactions:			
Issuance of share options for receivables	4,800	-	-

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

CHECK CAP LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 -GENERAL INFORMATION

A.General:

(1) Check Cap Ltd. (the "Company") is a company incorporated in Israel. The registered address of its offices is Abba Hushi Blvd., Isfiya.

The Company is engaged in the development of an ingestible imaging capsule that utilizes low-dose X-rays for the screening for precancerous polyps and colorectal cancer. The capsule is designed to enable early detection of the disease without the need for a prior burdensome and uncomfortable bowel cleansing, in a patient-friendly and non-invasive screening procedure.

(2) On February 24, 2015, the Company consummated an initial public offering in the United States (the "IPO") of 2,000,000 units at a public offering price of $6 per unit, before underwriting discounts and offering expenses. Each unit consisted of one ordinary share and one-half of a Series A Warrant to purchase one ordinary share. Each unit was issued with one and one-half non-transferrable Long Term Incentive Warrants. Each whole Series A Warrant entitles the holder to purchase one ordinary share at an exercise price of $7.50. Upon vesting, each Long Term Incentive Warrant will entitle the holder to purchase one ordinary share at an exercise price of $6.90.

The Company granted the underwriters a 45-day over-allotment option to purchase up to 300,000 additional units (together with an accompanying 450,000 Long Term Incentive Warrants). The option to purchase additional 100,000 units was partially exercised on March 6, 2015. The units were separated into one ordinary share and one-half of a Series A Warrant to purchase one ordinary share on March 18, 2015, and the units ceased to exist as of such date. On April 6, 2015, the option to purchase additional 150,000 ordinary shares and 75,000 Series A Warrants was partially exercised. The Company received net proceeds from the IPO and partial exercise of the over-allotment option of approximately $10.8 million (net of issuance cost of approximately $2.7 million). The Company's ordinary shares and Series A Warrants are listed on the NASDAQ Capital Market under the symbols "CHEK," and "CHEKW," respectively.

(3) Concurrently with the consummation of the IPO, the Company completed a private placement of approximately 2,000,000 units at a price of $6 per unit, before issuance cost. Each unit consisted of one ordinary share and one-half of a Series A Warrant to purchase one ordinary share. Each unit was issued with one and one-half non-transferrable Long Term Incentive Warrants. Each whole Series A Warrant entitles the holder to purchase one ordinary share at an exercise price of $7.50. Upon vesting, each Long Term Incentive Warrant will entitle the holder to purchase one ordinary share at an exercise price of $6.90. The Company received net proceeds from the private placement of approximately $10.9 million, (net of issuance cost of approximately $1.1 million).

B.Financial Position:

Since its inception, the Company has devoted substantially all of its efforts to research and development, clinical trials, recruiting management and technical staff, acquiring assets and raising capital. The Company is still in its development and clinical stage and has not yet generated revenues. The extent of the Company's future operating losses and the timing of becoming profitable are uncertain. The Company has incurred losses of $4.1, $4.0 and $3.7 million for the years ended December 31, 2014, 2013 and 2012, respectively. The Company funds its operations primarily through equity financings.

Management expects that the Company will continue to generate losses from its development and clinical activities which will result in a negative cash flow from operating activity. Management expects that the Company's existing cash along with the funds secured in the IPO and concurrent private placement will be sufficient to fund the Company's projected operating requirements for at least another 24 months following December 31, 2014.

CHECK CAP LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - GENERAL INFORMATION (Cont.)

C. Agreement for transfer of assets:

On May 31, 2009, the Company entered into an asset transfer agreement with Check Cap LLC (the "Predecessor Entity"), a company with the same shareholders as the Company at the time of transfer. According to the agreement, the Predecessor Entity transferred all of its business operations and substantially all of its assets to the Company, including development and consulting agreements, cash, property and equipment and intangible ownership rights, free of any debt. The above agreement did not have any effect on the Company's operations and was accounted for using historical amounts.

In addition, losses for tax purposes accumulated by the Predecessor Entity were not transferred to the Company.

D. Conversion of Preferred Shares and Preferred Share Warrants

On January 15, 2015, the Company's shareholders approved the conversion on a 1:1 basis, of each and every class and series of the Company's authorized and outstanding preferred shares into ordinary shares, par value NIS 0.01 per share, of the Company (the "Pre- Split Ordinary Shares") and the conversion on a 1:1 basis of all outstanding preferred share warrants into warrants to purchase Pre-Split Ordinary Shares, subject to and effective immediately prior to the IPO and provided that the IPO is consummated on or prior to December 31, 2015. Immediately prior to the consummation of the IPO on February 24, 2015, 4,338,998 preferred shares were converted into 4,338,998 Pre-Split Ordinary Shares and 948,000 warrants to purchase preferred shares were converted into 948,000 warrants to purchase Pre-Split Ordinary Shares. Therefore, as of the date hereof, the Company's share capital is comprised solely of ordinary shares and options and warrants to purchase ordinary shares.

E. Reverse Share Split:

Effective immediately prior to the consummation of the IPO, we effected a reverse share split of 1 for 20 (i.e., 20 Pre-Split Ordinary Shares were combined into one ordinary share, par value 0.20 per share, of the Company), in accordance with the approval of the Company's shareholders at a meeting held on January 15, 2015. All ordinary shares and per share data included in these financial statements for all periods presented have been retroactively adjusted to reflect the reverse split.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Declaration regarding the implementation of International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standard Board ("IASB"):

The financial statements of the Company have been prepared in conformity with IFRS, as issued by the IASB.

The significant accounting policies detailed below were applied consistently for all of the reporting periods presented in these financial statements, except for the changes in accounting policies that were due to the application of standards, amendments to standards and interpretations that took effect on the date of the financial statements, as specified in Note 3.

B. Presentation of statements of financial position:

The Company presents assets and liabilities in the statement of financial position by allocating items to current and non-current.

CHECK CAP LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

C.Format for analysis of expenses in the statement of comprehensive Income:

The format for analysis of expenses recognized in the statement of profit or loss and comprehensive income is a classification method based on the operating characteristic of the expense. The Company believes that such way of allocation provides more reliable and relevant information.

D.Foreign currency:

(1)Functional currency and presentation currency:

The Company has not yet generated revenues, and the majority of its expenses is in U.S. Dollar (Dollar or USD) or NIS, while none of these currencies is significantly material compared to the other. After considering the factors to determine the functional currency in IAS 21, "the Effects of Changes in Foreign Exchange Rates", management determined that the Dollar is the Company's functional currency.

Management judgment, in setting the Dollar as the Company's functional currency, is based mainly on the following criteria: The Company's budget and other Company internal reports, including reports to the Company's Board of Directors and investors, are presented in Dollars. Management is using these reports in order to make decisions for the Company. All of the Company's equity and debt financings were in Dollars; and it is expected that a significant portion of the Company's future revenue will be in Dollars. The financial statements are presented in Dollars, which is the functional currency of the Company. See Note 2Q regarding the rates of exchange and changes in them during the presented periods.

(2)Translation of transactions that are not in the functional currency:

In preparing the financial statements of the Company, transactions in currencies other than the functional currency of the Company (hereafter - “foreign currency”) are recorded at the rates of exchange prevailing at the date of the transactions. At each statement of financial position date, monetary items denominated in foreign currencies are remeasured at the rates prevailing at the statement of financial position date. (Non-monetary items carried at fair value that are denominated in foreign currencies are remeasured at the rates prevailing at the date when the fair value was determined). Non-monetary items that are measured in terms of historical cost are translated at the historical exchange rates that were in effect on the date of the execution of the transactions related to them.

(3)Recognition of exchange differences:

Exchange differences are recognized in profit and loss in the period in which they arise.

E.Cash and cash equivalents:

Cash and cash equivalents includes cash in hand and term deposits in banks with an original maturity of up to three months, with a high level of liquidity that may be easily converted to known amounts of cash, and that are exposed to insignificant risk of change in value.

Explanation of Responses:

CHECK CAP LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

F. Property and equipment:

(1) General:

Property and equipment are tangible items, which are held for use in the production or supply of goods or services, expected to be used for more than one period.

The Company presents its property and equipment items under the cost method.

Under the cost method, property and equipment are presented in the statement of financial position at cost less accumulated depreciation and accumulated impairment losses. The cost includes the cost of the asset acquisition, as well as the costs that can be directly attributed to bringing the asset to the location and condition that are necessary for it to be capable to operate in the manner intended by management.

(2) Depreciation of property and equipment:

Depreciation of property and equipment is calculated using the straight-line method at rates considered adequate to depreciate the assets over their estimated useful lives as follows:

	Length of useful life Years	Depreciation rate %
Office furniture and equipment	10-14	7-10
Laboratory equipment	3-7	15-33
Computers and auxiliary equipment	3	33

Gain or loss arising on disposal or retirement of an item of property and equipment is determined as the difference between the disposal proceeds and the net carrying amount of the asset and are recognized in the statement of profit or loss and other comprehensive income.

G. Research and development costs:

Expenditures related to research activities, for the purpose of acquiring new scientific or technical know-how, are expensed when incurred.

Development activities are related to a plan to produce new products or processes, or to significantly improve existing products or processes. Expenditures for development activities are capitalized as an intangible asset only if: the development costs may be reliably measured; the product or process is technically and commercially feasible; future economic benefit is expected from the product and the Company intends and has adequate resources to complete the development and use or sell the asset.

None of the Company's development costs meet the above conditions. Therefore, costs were expensed as incurred.

See Note 2K below regarding the offset of grants received for participation in research and development expenses.

F-11

CHECK CAP LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

H.Financial asset:

(1)General:

All financial assets are recognized and derecognized in the statement of financial position on the date where the purchase or sale of the financial asset is under a contract whose terms require the transfer of the financial asset within the timeframe established by the relevant market.

The financial assets are initially recognized at their fair value, with the addition of transaction costs, except for those financial assets classified as at fair value through profit and loss, which are initially recognized at their fair values.

(2)Impairment of financial assets:

Financial assets, other than those classified as financial assets at fair value through profit and loss, are assessed for indications of impairment at the end of each reporting period. Objective evidence of impairment exists when one or more events that have occurred after the initial recognition of the financial asset, having negative impact on the estimated future cash flows.

Indications of impairment may include:

§Significant financial difficulties of the issuer or debtor;
§Probability that the debtor will enter bankruptcy or financial reorganization.

The Company currently has no financial assets that may be subject to impairment.

I.IFRS 13 "Fair Value Measurement":

IFRS 13 establishes a single source of guidance for fair value measurement and disclosures about fair value measurement. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurement. The scope of IFRS 13 is broad: It applies to both financial instruments items and non-financial instruments items for which other IFRSs require or permit fair value measurement and disclosure about fair value measurement, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

J.Financial liabilities and equity instruments issued by the Company:

(1)Classification as a financial liability or an equity instrument:

Debt and equity instruments are classified as a financial liability or as an equity instrument, in accordance with the substance of the contractual arrangements.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its' liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue

costs.
Financial liabilities are classified as:

- § Financial liabilities at fair value through profit and loss; or,
- § Other financial liabilities.

F-12

CHECK CAP LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

J. Financial liabilities and equity instruments issued by the Company: (Cont.)

(2) Warrants for the acquisition of the Company's preferred and ordinary shares:

a. Warrants to acquire shares of the Company which provide the holder with the right to acquire a fixed number of shares in consideration of a fixed amount of cash are presented in equity. For this purpose, an exercise amount varying according to the exercise date, where at the date of the issuance, the exercise price at any possible exercise date can already be determined, is treated as a fixed amount.

b. Warrants to acquire shares of the Company shares which provide the holder with the right to acquire a fixed number of ordinary or preferred shares in consideration of a variable amount of cash or cashless right are presented in current liabilities, measured at fair value through profit and loss.

(3) Derecognition of financial liabilities:

A financial liability is derecognized if, and only if, it is settled. Meaning that the obligation that is specified in the contract is paid, cancelled or expired.

K. Grants from the Office of the Chief Scientist of the Ministry of Economy (formerly named the Ministry of Industry, Trade and Labor) (the "OCS") and from Israel-United States Binational Industrial Research and Development Foundation (the "BIRD Foundation"):

Grants received from the OCS and the BIRD Foundation, which the Company is required to return with interest under certain conditions, represent loans that may be forgiven and are treated as follows:

On the date of initial recognition, the grant is presented as a financial liability at the fair value of the expected cash flows to be repaid, discounted at a discount rate commensurate with the risk level of the research and development project. The difference between the amount of the grant and its fair value at initial recognition is treated as a government grant (see also Note 10A and 4B1).

In subsequent periods, the financial liability is measured at the present value of the expected cash flows to be paid in the future, discounted each period at the original interest rate of the liability, with the changes in the liability being recorded in profit and loss for each period.

L. Provisions:

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, as to which it is probable that the Company will be required to settle the obligation, and such obligation can be reliably estimated.

The amount recognized as a provision reflects the best estimate of the Company's management as to the amount required to settle the present obligation as of the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured by using the cash flows estimated to settle the obligation, its carrying amount is the present value of those anticipated cash flows.

When all or part of the present amount to settle an obligation is expected to be recovered from a third-party, the Company recognizes an asset with respect to the recovery, to the extent of the provision that was recognized, only if it is virtually certain that the reimbursement will be received and the amount can be reliably estimated. (See Note 10).

CHECK CAP LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

M.Share-based payments:

Share-based payments to employees and service providers of the Company, which are settled by equity instruments of the Company, are measured at their fair value on the grant date. The Company measures the fair value of the equity instruments granted using the Black Scholes Merton formula. (See Note 12 with regard to inputs used in measurement of fair value of the share-based payments). When the equity instruments granted do not vest until such employees and service providers complete a defined period of service, comply with the conditions for exercise or defined market conditions are present, the Company recognizes the share-based payment arrangements in the financial statements over the vesting period against an increase in shareholders' equity. As of the date of the financial statements, the Company approximates the number of equity instruments expected to vest. Any change in estimate with relation to previous periods is recognized in profit and loss over the term of the vesting period.

N.Taxes on income:

In view of the Company's losses for tax purposes, and due to the lack of expectation of taxable income in the foreseeable future, the Company does not record deferred taxes for losses carried forward and for temporary differences between financial reporting and tax purposes.

O.Employee benefits:

Post-employment benefits:

The Company has a defined contribution plan in accordance with Section 14 of the Severance Pay Law. See Note 8.

Short-term employee benefits:

Short-term employee benefits are benefits which are anticipated to be utilized or paid during a period that does not exceed 12 months from the end of the period in which the service that creates the entitlement to the benefit was rendered.

Short-term employee benefits include the Company's liabilities for salaries, vacation, recreation pay, and deposits for National Insurance. These benefits are recorded to profit and loss, when incurred. The benefits are measured on a non-capitalized basis, which the Company anticipates paying. The difference between the amount of short-term benefits to which the employee is entitled and the amount paid is therefore recognized as an asset or liability.

P.Loss per share:

The Company presents basic and fully diluted loss per share for its ordinary shares. The basic loss per share, which is the same as the fully diluted loss, is calculated by dividing the loss attributable to holders of ordinary shares of the Company, by the weighted average number of ordinary shares outstanding during the reporting period .

In calculating the loss attributable to the ordinary shareholders, the Company deducted the 8% annual dividend preference amounts that the former preferred shareholders were entitled to prior to the consummation of the IPO, even though dividends have never been declared.

F-14

CHECK CAP LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Q.Exchange rates and linkage bases:

Balances in foreign currency or linked thereto are included in the financial statements at the representative exchange rates, as published by the Bank of Israel, that were prevailing as of the statement of financial position date.

Data on exchange rates are as follows:

	Representative exchange rate of $ (NIS/$ 1)	Representative exchange rate of € (€/$ 1)
Date of financial statements:		
December 31, 2014	3.889	0.8231
December 31, 2013	3.471	0.7259
Changes in exchange rates for the period:	%	%
Year ended:		
December 31, 2014	12.04	13.40
December 31, 2013	(7.02)	4.31

NOTE 3 - NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

IFRS 9 Financial Instruments:

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

All recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

The Company believes that the effects of adoption of IFRS 9 would not be material based on the current financial position of the Company; however, it is not practicable to provide an estimate of such effects until a detailed review has been completed.

CHECK CAP LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 -SIGNIFICANT ACCOUNTING JUDGMENT AND KEY SOURCE OF ESTIMATIONS

In the application of the Company's accounting policies, which are described in Note 2, management is required to make judgments, estimations and assumptions about the carrying amounts of assets and liabilities. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis and revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

A. Share-based compensation:

The Company accounts for its share-based compensation to employees in accordance with the provisions of IFRS 2 "Share-based Payment," which requires measuring the cost of share-based compensation based on the fair value of the award on the grant date. The cost is recognized as compensation expense over the requisite service period which is usually the vesting period, based upon the grant date fair value of the equity or liability instruments issued. The Company recognizes the compensation expenses over the vesting period using the accelerated method pursuant to which each vesting tranche is treated as a separate amortization period from the grant date to the vesting date, and classifies these amounts in the financial statements based on the department to which the related employee reports.

The Company selected the Black-Scholes Merton option pricing model as the most appropriate method for computing the fair value of its share-based awards, using the standard parameters established in that model including estimates relating to the fair value of its ordinary shares, volatility, estimated life of the instruments, risk-free interest rates and dividends yield as described below.

(1)Option Valuations:

The determination of the grant date fair value of options using an option pricing model is affected by estimates and assumptions with respect to a number of complex and subjective variables. These variables include the expected volatility of the Company’s share price over the expected term of the options, share option exercise and cancellation behaviors, risk-free interest rates and expected dividends, which are estimated as follows:

Fair Value of the Ordinary Shares. Because the Company's shares were not publicly traded in the periods presented, the Company estimated the fair value of its ordinary shares, as discussed below in "—Valuation of the Company's ordinary shares".

Volatility. The expected share price volatility was based on the historical equity volatility of the ordinary shares of comparable companies that are publicly traded.

Expected Term. The expected term of options granted represents the estimated period of time that options granted are expected to be outstanding. Since adequate historical experience is not available to provide a reasonable estimate, the expected term is determined based on the midpoint between the available exercise dates (the end of the vesting periods) and the last available exercise date (the contracted expiration date).

Risk-Free Rate. The risk-free interest rate is based on the yield from U.S. Treasury zero-coupon bonds with a term equivalent to the expected term of the options.

F-16

CHECK CAP LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 - SIGNIFICANT ACCOUNTING JUDGMENT AND KEY SOURCE OF ESTIMATIONS (Cont.)

A. Share-based compensation: (Cont.)

(1)Option Valuations: (Cont.)

Expected Dividend Yield. The Company has never declared or paid any cash dividends and does not presently plan to pay cash dividends in the foreseeable future. Consequently, the Company used an expected dividend yield of zero.

If any of the estimates and assumptions used in the Black-Scholes Merton model change significantly, the Company’s share-based compensation for future awards may differ materially from those projected and recorded previously.

(2)Valuation of the Company's ordinary shares:

Due to the absence of an active market for the Company's ordinary shares prior to the consummation of the IPO, the fair value of its ordinary shares for purposes of determining the exercise price for award grants was determined in good faith by the Company's management, with the assistance of a third party valuation expert, and approved by the Company's board of directors. In connection with preparing its financial statements, the Company's management considered the fair value of the Company's ordinary shares based on a number of objective and subjective factors consistent with the methodologies outlined in the American Institute of Certified Public Accountants Practice Aid, Valuation of Privately-Held-Company Equity Securities Issued as Compensation, referred to as the AICPA Practice Aid.

B. Royalties provision:

(1)Government grants from the OCS and the BIRD Foundation:

The Company received research and development funding from the State of Israel through the OCS in the form of grants which the Company is required to return with interest under certain conditions. Pursuant to regulations under the Encouragement of Industrial Research and Development Law 5744- 1984 (the "Research Law"), royalties on the Company's revenues will be payable to the Israeli government, at rates ranging from 3% to 5% (or at an increased rate under certain circumstances), up to an aggregate of 100% (which may be increased under certain circumstances) of the dollar-linked value of the total grants received in respect of the approved plans, plus interest at the rate of 12-month London Interbank Offered Rate (“LIBOR”). In addition, the Company received a grant from the BIRD Foundation. The Company is required to return the grant to the BIRD Foundation, linked to the U.S. Consumer Price Index from date of receipt of the grant, up to 100%, 113%, 125%, 138% and 150% of the linked sum granted by the BIRD Foundation if repaid within one year, two years, three years, four years and five or more years, respectively. Repayments are made at the rate of 5% of gross revenues derived from the product funded by the project. Such grants qualify as "forgivable loans" in accordance with IAS 20, "Accounting for Government Grants and Disclosure of Government Assistance", since they are repayable only if the Company generates revenues related to the underlying project.

In accordance with IAS 20, each grant is accounted for as a liability unless it is more likely than not that the Company will meet the terms of forgiveness of the loan, in which case the forgivable loan is accounted for as a government grant and recognized as a reduction of the research and development expenses. The Company considers it more likely than not that the project underlying its OCS and BIRD Foundation grants will reach the revenue generating stage and therefore, it records a liability in respect of the OCS and BIRD Foundation grants.

F-17

CHECK CAP LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 - SIGNIFICANT ACCOUNTING JUDGMENT AND KEY SOURCE OF ESTIMATIONS (Cont.)

B. Royalties provision: (Cont.)

(1)Government grants from the OCS and the BIRD Foundation: (Cont.)

On the date of initial recognition, the grant is presented as a financial liability at the fair value of the expected cash flows to be repaid, discounted at a discount rate commensurate with the risk level of the research and development project. The difference between the amount of the grant and its fair value is treated as a government grant. In subsequent periods, the financial liability is measured at the present value of the expected cash flows to be paid in the future, discounted each period at the original interest rate used in computing the initial liability. Changes in the liability are recorded to profit and loss each period.

In calculating the present value of future payments to the OCS and BIRD Foundation, the Company used a discount rate of 21.8% for grants received during 2012 and 2013 and 19% for grants received during 2014.

Due to the fact that the Company is still in its development and clinical stage and has not generated revenues, the sales forecast is highly subjective and may vary significantly in the future. As more information is gathered to assist the Company's management in making forecasts, the liability will be updated. Any updates in the expected cash outflows and the liability will be recorded to profit and loss each period.

(2)Provision for royalties to an ASIC designer:

In December 2007, the Company entered into an agreement for the development of an Application Specific Integrated Circuit (hereafter –"ASIC") component to be used as an amplifier for the capture of signals at low frequencies from X-ray detectors contained in the Company's product. The ASIC developer is entitled to receive royalties from the Company in the amount of €0.5 (approximately $0.61) for every ASIC component that the Company will sell, up to €200 thousands (approximately $243 thousands). The net present value of the royalty liability to the ASIC designer is dependent upon the Company's management estimates and assumption as to future product shipments and interest rates used to calculate the present value of the cash payments required to repay the royalties to the ASIC designer. The liability was calculated as the present value of expected cash outflows discounted at a 17.6% discount factor, commensurate with the risk of the Company at the date of initial recognition of the liability.

(3)Reimbursement liability to Predecessor Entity unit holders:

On May 31, 2009, the Company entered into an agreement with the Predecessor Entity pursuant to which the Predecessor Entity transferred all of its business operations and substantially all of its assets to the Company. In connection with the reorganization, the Company undertook to reimburse the unit holders of the Predecessor Entity for any tax burdens that may be imposed on them due to the reorganization. The reimbursement liability is calculated assuming deemed royalties are paid to the U.S. unit holders of the Predecessor Entity under Section 367(d) of the U.S. Internal Revenue Code of 1986, as amended (the "Code") and is based in part on the Company's forecasted revenues. The liability was calculated using the provisions of IAS 39 under which expected cash outflows were discounted using a 17.6% discount factor commensurate with the risk of the Company at the date of initial recognition of the liability. Due to the fact that the Company is still in its development stage and has not generated revenues, the sales forecast is highly subjective and may vary significantly in the future. As more information gathered to assist the Company's management in making forecasts, the liability would be updated. Any updates in the expected cash outflows and the liability will be recorded to profit and loss each period.

F-18

CHECK CAP LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 - SIGNIFICANT ACCOUNTING JUDGMENT AND KEY SOURCE OF ESTIMATIONS (Cont.)

C. Fair value of financial instruments:

On June 1, 2009, in connection with the certain Series C preferred share purchase agreement, the Company issued the following warrants to the lead investor: 41,822 warrants for the purchase of C1 preferred shares and 50,399 warrants for the purchase of C2 preferred shares. These warrants are exercisable on a cashless basis and therefore, are classified as a liability in the statement of financial position. The fair value of this financial instrument is determined based on an option pricing model using similar assumptions to those used for the Company's share-based compensation awards to employees. Changes in the inputs used in valuation of the warrants may change the fair value of liability and affect the Company's profit or loss.

NOTE 5 -CASH AND CASH EQUIVALENTS

Composition:

	December 31,	
	2 0 1 4	2 0 1 3
	in USD thousands	
Cash on hand and bank balances	1,075	270
Short-term deposits	-	4,705
Cash and cash equivalents	1,075	4,975
Cash and short-term deposits in Dollar	73	4,589
Short-term deposits in GBP	-	4
Cash and short-term deposits in NIS	1,002	382

NOTE 6 - OTHER CURRENT ASSETS

Composition:

	December 31,	
	2 0 1 4	2 0 1 3
	in USD thousands	
Government institutions	46	45
Other	44	64
Prepaid expenses	27	21
	117	130

F-19

CHECK CAP LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 - PROPERTY AND EQUIPMENT, NET

Composition:

	Office Furniture And equipment	Laboratory equipment	Computers and auxiliary equipment	Total
		in USD thousands		
Cost				
Cost as of January 1, 2013	89	263	162	514
Additions	1	8	36	45
Cost as of December 31, 2013	90	271	198	559
Additions	2	34	9	45
Cost as of December 31, 2014	92	305	207	604
Accumulated depreciation				
Accumulated depreciation as of January 1, 2013	24	144	90	258
Depreciation	7	29	41	77
Accumulated depreciation as of December 31, 2013	31	173	131	335
Depreciation	6	32	40	78
Accumulated depreciation as of December 31, 2014	37	205	171	413
Net book value:				
December 31, 2014	55	100	36	191
December 31, 2013	59	98	67	224

NOTE 8 - EMPLOYEE BENEFITS

A. Composition:

	December 31, 2 0 1 4	December 31, 2 0 1 3
	in USD thousands	
Short-term employee benefits:		
Benefits for vacation pay	332	222
Liability for salary, bonuses and wages	790	436
	1,122	658

F-20

CHECK CAP LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 - EMPLOYEE BENEFITS (Cont.)

B. Post-employment Benefits:

According to Israeli law the Company is generally required to pay severance compensation to an employee at the time of dismissal, death or retirement (including employees who leave the place of employment under other specified circumstances). The calculation of the obligation related to the termination of the employee-employer relationship is based on the employee's salary and the years of service.

Commencing June 1, 2009, the Company has defined contribution plans, in accordance with Section 14 of the Israeli Severance Pay Law, according to which the Company makes monthly payments to insurance policies for its employees. Upon termination of employment, employees will be entitled to receive only the amounts accrued in the insurance policies with respect to severance pay. Deposits to a defined contribution plan for severance pay or for pensions are recognized as an expense at the time of the deposit to the plan concurrent with obtaining the labor services from the employee, and no additional provision in the financial statements is required.

C. Short-term employee benefits:

(1) Paid vacation days:

In accordance with the Yearly Vacation Law-1951, Company employees are entitled to a number of paid vacation days for each year of employment. In accordance with the law and its appendix, and as determined in the agreement between the Company and the employees, the number of vacation days per year to which each employee is entitled is based on the seniority of the employee.

The employee may use vacation days based on his needs and with the Company's consent, and to accrue the remainder of unused vacation days. The vacation days utilized first are those credited for the current year and subsequently from any balance transferred from the prior year (on a “LIFO” basis). An employee who ceased working before utilizing the balance of vacation days accrued is entitled to payment for the balance of unutilized vacation days.

(2) Related parties:

For information regarding short-term employee liabilities given to related parties see Note 20.

CHECK CAP LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 - TAXES ON INCOME

A. The Company received final tax assessments for the year ended December 31, 2009.

B. Losses and deductions for tax purposes carried forward amount to approximately $17.3 million as of December 31, 2014. Due to the lack of expectation of taxable income in the foreseeable future, no deferred taxes were recorded for these carry forward losses and deductions.

C. Corporate tax rates in Israel:

The Israeli corporate tax rate was 26.5% and 25% in 2014 and 2013, respectively.

In August 2013, the Economic Plan to change the national priorities in 2013 and 2014 ("Amended Budget Law") was officially published. The Amended Budget Law consists of fiscal changes whose main aim is to enhance the collection of taxes in those years. These changes include: (i) raising the Israeli corporate tax rate from 25% to 26.5%, (ii) cancelling the reduction of the tax rates applicable to preferred enterprises (9% in development area A and 16% in other areas), and (iii) in certain cases increasing the tax rates on dividends within the scope of the Law for the Encouragement of Capital Investments to 20% effective from January 1, 2014. Other changes introduced by the Amended Budget Law include taxing revaluation gains effective from August 1, 2013. The changes regarding the taxation of revaluation gains, however, will only become effective once regulations that define "non-corporate taxable retained earnings" are issued as well as regulations that set forth provisions for avoiding double taxation of assets outside of Israel. As of the date of publication of these financial statements, no such regulations have been issued. The change in tax rates did not have an effect on the Company's financial statements.

The Company did not record current taxes for the years ended December 31, 2012, 2013 and 2014 since it had no taxable income.

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES

A. Provisions:

Royalties to the OCS:

The Company has a liability to pay royalties to the Israeli government as a result of grants received from the OCS. The liability is calculated based on future sales generated by products which were developed using the OCS grants. As of December 31, 2014, it is probable that the Company will be required to pay the above mentioned royalties, and accordingly, the Company recorded, as of December 31, 2014, a provision in a total amount of $1,879 thousand (see also Note 4B1). According to the terms of the grants, the OCS is entitled to royalties equal to 3-5% (or at an increased rate under certain circumstances) of the sales of the product funded, up to the full principal amount (which may be increased under certain circumstances) of the U.S. dollar-linked value of the grants, plus interest at the rate of 12-month LIBOR.

As of December 31, 2014, the Company had received OCS grant in the aggregate amount of $3.5 million.

CHECK CAP LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

A. Provisions: (Cont.)

Royalties to the OCS: (Cont.)

The movement in the provision is as follows:

	December 31, 2014	December 31, 2013
	in USD thousands	
Balance at the beginning of the year:	1,618	1,190
Changes during the year:		
Amounts charged to the statement of profit and loss and other comprehensive loss	(297)	(219)
Amounts received during the year	558	647
Balance at year end	1,879	1,618

Royalties to the BIRD Foundation:

The Company has a liability to pay royalties to the BIRD Foundation as a result of a grant received by the Company and Synergy from the BIRD Foundation (See also Note 10B(4)). The liability is calculated based on future sales generated by products which were developed using the BIRD Foundation grant. As of December 31, 2014, it is probable that the Company will be required to pay the above mentioned royalties, and accordingly, the Company recorded, as of December 31, 2014, a provision in a total amount of $86 thousands (see also Note 4B(1)). According to the terms of the grant, the BIRD Foundation is entitled to royalties equal to 5% of the sales of the product funded, up to 100%, 113%, 125%, 138% and 150% of the U.S. Consumer Price Index linked sum granted by the BIRD Foundation if repaid within one year, two years, three years, four years and five or more years, respectively.

As of December 31, 2014, the Company had received from the BIRD Foundation grants in the aggregate amount of $127 thousands.

Royalties to an ASIC designer:

The Company has a liability to pay royalties for the development of an ASIC component which is used as an amplifier for the capture of signals at low frequencies from X-ray detectors contained in the capsule. The institution that developed the ASIC is entitled to a receive royalties from the Company in the amount of € 0.5 ($0.61) for every ASIC component that the Company will sell, capped at € 200 thousands ($243 thousands). This royalty is considered a liability of the Company for the development of the ASIC component.

The royalties liability is calculated based on estimated future sales generated by products which includes the ASIC component. As of December 31, 2014, the Company believes that it will be required to pay the above mentioned royalties, and accordingly, recorded, as of December 31, 2014, a provision in a total amount of $151 thousands.

F-23

CHECK CAP LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

A.Provisions: (Cont.)

Reimbursement liability to Predecessor Entity's unit holders:

As part of the reorganization discussed in Note 1C, the Company committed to reimburse the unit holders of the Predecessor Entity for any tax burdens that may be imposed on them due to the reorganization. The reimbursement liability is calculated assuming deemed royalties are paid to the U.S. unit holders of the Predecessor Entity under Section 367(d) of the Code and is based in part on the forecasted sales of the Company. The liability was calculated using the provisions of IAS 39 under which expected cash outflows were discounted using a discount factor commensurate with the risk of the Company. Any updates in the expected cash outflows and the liability will be charged to earnings. As of December 31, 2014, the balance of the reimbursement liability totaled $393 thousands.

	December 31,	
	2 0 1 4	2 0 1 3
	in USD thousands	
Royalties to the OCS	1,879	1,618
Royalties to the BIRD Foundation	86	-
Royalties to an ASIC designer	151	171
Reimbursement liability to Predecessor Entity's unit holders	393	788
	2,509	2,577

B.Commitments:

(1)Rental agreement

In April 2009, the Company entered into a lease agreement according to which the Company rented space of approximately 550 sq. meters in a building located in Isfiya for a period of 10 years, commencing June 1, 2009. In June 2012, the Company extended the lease agreement and rented additional space of 60 sq. meters in the building's second floor. The rental period is 10 years commencing June 1, 2012, and the Company has the right to terminate the agreement at any time upon at least 60 days prior written notice. The monthly rental fee is NIS 17 thousands (approximately $4.9 thousands). The rental expenses recorded by the Company for the years ended December 31, 2014 and 2013 were $60 thousands and $56 thousands, respectively.

(2)Agreements for financial brokerage service

See Note 11E(2).

(3)Detector development agreement

See Note 4B(2).

(4) Cooperation and project funding agreement

On July 13, 2014, the Company entered into a Cooperation and Project Funding Agreement with the BIRD Foundation and Synergy, pursuant to which the BIRD Foundation has agreed to award a grant in the maximum amount of the lesser of (i) $900 thousands; and (ii) 50% of the actual expenditures for the funding of a project entitled "Collection & Analysis of Gastrointestinal Images for Diagnostic Adenomatic Polyps and Colorectal Cancer." The development work is expected to be performed over a 24 month period by Synergy (or a subcontractor on its behalf) and the Company.

CHECK CAP LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

B. Commitments: (Cont.)

As of December 31, 2014, it is probable that the Company will be required to pay the above mentioned royalties, and accordingly, the Company recorded, as of December 31, 2014, a provision in a total amount of $86 thousands (see also Note 4B(1)).

C.Liens:

(1)In July 2013, the Company pledged a deposit of NIS 150 thousands ($38 thousands) with a bank as a security for credit cards issued to the Company.
(2)See Note 21A regarding collateral used to secure a credit line facility with Bank Leumi le-Israel B.M. ("Bank Leumi").

D.Legal:

As of the date of the financial statements, the Company has not been and is not a party to any legal proceedings.

NOTE 11 - SHARE CAPITAL

A. Authorized capital:

	December 31,	
	2 0 1 4	2 0 1 3
	in USD thousands	
Ordinary shares with par value of NIS 0.2	43,358	45,358
Preferred A shares with par value of NIS 0.2	338	338
Preferred B shares with par value of NIS 0.2	338	338
Preferred C1 shares with par value of NIS 0.2	875	875
Preferred C2 shares with par value of NIS 0.2	1,592	1,592
Preferred C3 shares with par value of NIS 0.2	1,500	1,500
Preferred D1 shares with par value of NIS 0.2	4,000	4,000
Preferred D2 shares with par value of NIS 0.2	3,000	3,000
Preferred D3 shares with par value of NIS 0.2	2,250	250
Preferred D4 shares with par value of NIS 0.2	250	250

CHECK CAP LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 - SHARE CAPITAL (Cont.)

B. Issued capital:

	Number of shares December 31,		Share capital December 31,		Premium on shares December 31,	
	2014	2013	2014	2013	2014	2013
	Thousands of shares		in USD thousands		in USD thousands	
Ordinary shares with par value of NIS 0.2 fully paid up	1,152	1,152	53	53	6	6
Preferred A shares with par value of NIS 0.2, participating and convertible, fully paid up	338	338	15	15	660	660
Preferred B shares with par value of NIS 0.2, participating and convertible, fully paid up	338	338	15	15	1,367	1,367
Preferred C1 shares with par value of NIS 0.2, participating and convertible, fully paid up	821	821	42	42	3,584	3,584
Preferred C2 shares with par value of NIS 0.2, participating and convertible, fully paid up	1,489	1,489	79	79	7,606	7,606
Preferred D1 shares with par value of NIS 0.2, participating and convertible, fully paid up	1,227	1,227	68	68	(*)8,721	(*)8,721

Preferred D3 shares with par value of NIS 0.2, participating and convertible, fully paid up	126	126	7	7	1,022	1,022
			279	279	22,966	22,966

(*) Include proceeds allocated to D1 and D2 warrants in a total amount of $1,793.

F-26

CHECK CAP LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 - SHARE CAPITAL (Cont.)

C.Rights attached to shares:

(1) Ordinary shares:

The ordinary shares provide their owners with rights to receive dividends in cash and shares, and rights to participate at the time of distributing liquidation dividends, subject to the preferential rights of the preferred shareholders, as described below. Additionally, the ordinary shareholders have the right to vote in shareholders' assemblies in a manner that each share provides one voting right to its holder.

(2) Liquidation preferences on preferred shares:

The Preferred shares provide their owners with similar rights to the ordinary shares with a liquidation preference. In the occurrence of a Liquidation Event (as such term is defined in the Company's Articles of Association), the Preferred shares confer upon their holders preference rights, such that each Preferred share entitles its holder to be paid out of the assets of the Company available for distribution to its shareholders, an amount per preferred share equal to its original issue price, plus a yield of 8% per annum, in accordance with the following order of preference:

First to the holders of Preferred D shares, second to the holders of Preferred C shares, third to the holders of preferred A shares, and forth to the holders of Preferred B shares.

After the payment in full of the above preference amount, the remaining assets of the Company available for distribution to its shareholders, if any, shall be distributed among the holders of preferred shares as a single class, pro rata in accordance with each holder's original issue price.

After the payment in full of the above preference amount, the remaining assets of the Company available for distribution to its shareholders, if any, shall be distributed among the holders of Preferred shares and ordinary shares, pro rata based on the number of shares held by each such holder on an "as-converted" basis (i.e., treating all Preferred shares as if they had been converted to ordinary shares).

(3) Conversion:

See Note 1D regarding the conversion on a 1:1 basis, of each and every class and series of our authorized and outstanding preferred shares into the Company's Pre-Split Ordinary Shares and the conversion on a 1:1 basis of all outstanding preferred share warrants into warrants to purchase Pre-Split Ordinary Shares, each of which occurred immediately prior to the consummation of the IPO on February 24, 2015.

D.Reverse share split:

See Note 1E regarding the 1-for-20 reverse share split of the Company's ordinary shares that occurred immediately prior to the consummation of the IPO on February 24, 2015.

CHECK CAP LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 - SHARE CAPITAL (Cont.)

E. Changes in share capital:

Description	Amount raised, gross in USD thousands	Shares issued	Price per share	Warrants issued
Series A Investment Round, February 2005	$675	337,500 Preferred A Shares	$2.00	None
Series B Investment Round, August 2005	$1,382	338,472 Preferred B Shares	$4.08	None
Conversion of April 2007 Bridge Loan, June 2009	$403	80,725 Preferred C1 Shares	$4.99	Expired
Series C Investment Round, June 2009	$7,384	740,031 Preferred C1 Shares 686,251 Preferred C2 Shares	$4.99 $5.38	The lead investor received 41,822 preferred C1 warrants and 50,399 preferred C2 warrants (1)
Joinder to Series C Investment, November 2009 to February 2010	$4,321	803,204 Preferred C2 Shares	$5.38	Expired In addition, finder's received 26,952 preferred C2 warrants of which 18,586 expired (2)
Anti-Dilution Warrants	-	-	-	390,276 ordinary share warrants (3)
Series D1 Investment Round, March 2011 (4)	$9,255	1,227,275 Preferred D1 Shares	$7.54	810,013 preferred D2 warrants issued to all investors (4) In addition, finder's received 20,570 preferred D2 warrants and 25,196 preferred D1 warrants (4)
Series D3 Investment Round, January 2012 (5)	$1,055	125,540 Preferred D3 Shares	$8.40	None
Subtotal	$24,475			
Less: Issuance expenses	($850)			

Less: D1 and D2 warrants classified as financial liability	($439)
Ordinary shares	$59
Total	$23,245

F-28

CHECK CAP LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 - SHARE CAPITAL (Cont.)

E. Changes in share capital: (Cont.)

(1) Of the warrants issued to the lead investor, 41,822 preferred C1 warrants are exercisable at $4.99 per share and the 50,399 preferred C2 warrants are exercisable at $5.38 per share. These warrants expire on June 1, 2019 and are exercisable on a cashless basis. According to IAS 32, 'Financial Instruments: Presentation' (hereinafter—IAS 32), the preferred C1 and C2 warrants issued to the lead investor are classified as a financial liability, as their respective terms do not provide for fixed monetary payment in exchange for fixed number of shares. Accordingly, such warrants are presented in the statement of financial position as financial liabilities carried at fair value through profit and loss. As of December 31, 2014 and 2013, the fair value of such warrants was $225 thousands and $587 thousands, respectively. The decrease in the fair value of such warrants for the year ended December 31, 2014 and 2013 was $362 and $55 respectively, and was charged to the statement of profit or loss and other comprehensive income within "Changes in fair value of financial assets and liabilities designated at fair value through profit and loss".

(2) In consideration for brokerage services in connection with the Series C preferred share investment: (i) on December 15, 2009, the Company issued warrants to purchase 18,586 preferred C2 shares, with an exercise price of $5.38 per share, which expired on November 22, 2014.; and (ii) on April 27, 2010, the Company issued warrants to purchase 8,366 preferred C2 shares, with an exercise price of $5.38 per share, which expired on January 21, 2015. These grants were accounted for as a deduction of equity.

(3) On May 11, 2010, the Company issued, free of charge, to all of its shareholders (except for certain ordinary shareholders) and warrant holders, warrants to purchase an aggregate of 390,276 ordinary shares (hereafter- "Anti-dilution Warrants"). The Anti-dilution Warrants were issued in order to prevent the dilution of the holdings of such Company shareholders and warrant holders due to certain options granted to the Company's CEO (hereafter- "CEO options"). The Anti-dilution Warrants will be automatically exercised, without consideration (unless the holder thereof objects to such exercise), upon the exercise by the Company's CEO of the CEO Options (and with respect to Anti-dilution Warrants issued to warrant holders, in proportion to the number of warrants held by the warrant holder with respect to which the Anti-dilution Warrants were granted that are exercised by the warrant holder from time to time). The fair value of the Anti-dilution Warrants on the grant date is immaterial. Immediately prior to the consummation of the IPO, the CEO exercised the CEO options and 171,715 Anti-dilution Warrants issued to shareholders were automatically exercised, and the holders of the remaining 203,489 Anti-dilution Warrants issued to shareholders objected to such exercise. An additional 10,587 Anti-dilution Warrants that were issued to warrant holders remain outstanding and 4,485 Anti-dilution Warrants that were issued to warrant holders have expired.

(4) In consideration for brokerage services in connection with the Series D-1 investment, the Company issued warrants to purchase 20,570 preferred D2 shares, with an exercise price of $9.43 per share and exercisable until March 17, 2015, and warrants to purchase 25,196 preferred D1 shares, with an exercise price of $7.54 per share and exercisable until March 17, 2015. These grants were accounted for as a deduction of equity. In addition, the brokerage services providers received $449 thousands in cash. On March 17, 2015, these D1 and D2 warrants expired.

(5) On January 10, 2012, the Company entered into a share purchase agreement pursuant to which the Company issued 125,540 preferred D3 shares in consideration of an investment of $1,055 thousands, reflecting a per share price of $8.40 per preferred D3 share. Following the issuance of the preferred D3 shares described above, the

Company increased its preferred share capital by $7 thousands and recorded a premium on preferred D3 shares of $1,022 thousands, net of issuance costs.

CHECK CAP LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 - SHARE CAPITAL (Cont.)

E. Changes in share capital: (Cont.)

(6) On August 20, 2014, the Company entered into a certain credit line agreement, pursuant to which it obtained a credit line in an aggregate principal amount of $12 million from certain lenders and existing shareholders (the "Lenders"). The credit line amount was deposited in an escrow account at the closing, which was consummated on October 14, 2014. The Company issued to each Lender at closing a warrant (collectively, the "Credit Line Warrants"), to purchase a number of the Company's ordinary shares constituting 2% of its share capital on a fully diluted basis (assuming conversion of all of the Company's convertible securities into ordinary shares at a 1:1 conversion rate) as of the closing for each $1 million (or portion thereof) extended by such Lender. The Company issued Credit Line Warrants ("CLA Warrants") to purchase in the aggregate 2,658,463 of its ordinary shares. The CLA Warrants are exercisable for a period of ten years at an exercise price of NIS 0.2 per share, and may be exercised on a net issuance basis. The CLA Warrants issued are considered outstanding and are exercisable at any time from the date issued with an exercise price of nominal amount. The Company allocated $4.8 million of the $12 million as consideration for the CLA Warrants based on relative fair value with the $4.8 million presented as a receivable on account of warrants in current assets with corresponding increase in shareholder equity.

Under the terms of the credit line agreement, the Company directed that the entire credit line amount be invested in a private placement, from the lenders that was deposited in escrow and consummated concurrently with the consummation of the IPO on February 24, 2015. The Company issued to the Lenders 2,000,000 units at a price of $6 per unit, before issuance cost. Each unit consisted of one ordinary share and one-half of a Series A Warrant to purchase one ordinary share. Each unit was issued with one and one-half non-transferrable Long Term Incentive Warrants. Each whole Series A Warrant entitles the holder to purchase one ordinary share at an exercise price of $7.50. Upon vesting, each Long Term Incentive Warrant will entitle the holder to purchase one ordinary share at an exercise price of $6.90. The Company received net proceeds from the private placement of approximately $10.9 million, (net of issuance cost of approximately $1.1 million).

In consideration for brokerage services in connection with the credit line agreement and upon the closing of the private placement, the Company issued warrants to purchase 84,509 ordinary shares, with an exercise price of $5.06 per share and exercisable until the end of two years from grant date. These grants were accounted for as a deduction of equity. In addition, the brokerage services providers received $0.9 million in cash commission.

Regarding the exercise of the credit line agreement warrants, see Note 21I.

NOTE 12 - SHARE BASED PAYMENT

A. Details of share-based grants made by the Company:

Month of option grant	No. of options	Grant date	Expiration date	Exercise price	Fair value on grant date
				USD	
April 2012 (2)	58,000	04/04/2012	04/04/2022	4.96	1.40
August 2012 (3)	17,500	28/08/2012	28/08/2022	4.96	1.40
June 2013 (4)	117,750	12/06/2013	12/06/2023	4.96	3.04
October 2014 (5)	803,081	14/10/2014	14/10/2024	(*)	3.01

(*) See Note 12A (5).

CHECK CAP LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 - SHARE BASED PAYMENT (Cont.)

A. Details of share-based grants made by the Company: (Cont.)

(1) In connection with the transfer of all of the business operations and substantially all of the assets of Check-Cap LLC to the Company in 2009, the Company assumed the Check-Cap LLC 2006 Unit Option Plan (hereafter: "the Plan"). According to the Plan, the Company is authorized to grant options to purchase ordinary shares of the Company to employees, directors and consultants of the Company. The options granted according to the Plan are generally exercisable for 10 years from the grant date unless otherwise determined by the Company's Board of Directors, vest over a period to be determined by the Company's Board of Directors, and have an exercise price to be determined by the Company's Board of Directors.

(2) In April 2012, the Company's Board of Directors approved the grant of options to purchase 58,000 ordinary shares, at an exercise price of $4.96, to employees and consultants of the Company. Of such options, options to purchase 1,251 ordinary shares were vested on the grant date, options to purchase 27,584 ordinary shares will vest over two years, options to purchase 17,875 ordinary shares will vest over three years and the remaining options to purchase 11,290 ordinary shares will vest over four years. The compensation expense was based on the fair value on the grant date, and was estimated at approximately $24 thousands.

(3) In August 2012, the Company's Board of Directors approved the grant of options to purchase 17,500 ordinary shares, at an exercise price of $4.96, to employees and consultants of the Company. Of such options, options to purchase 1,459 ordinary shares were vested on the grant date, options to purchase 11,667 ordinary shares will vest over two years and options to purchase 4,375 ordinary shares will vest over three years. The compensation expense was based on the fair value on the grant date, and was estimated at approximately $4 thousands. This amount is charged to profit and loss over the vesting periods.

(4) In June 2013, the Company's Board of Directors approved the grant of options to purchase 117,750 ordinary shares, at an exercise price of $4.96, to employees and consultants of the Company. Of such options, options to purchase 16,147 ordinary shares were vested on the grant date, options to purchase 67,583 ordinary shares will vest over two years, options to purchase 25,688 ordinary shares will vest over three years and options to purchase 8,332 ordinary shares will vest over four years. The compensation expense was based on the fair value on the grant date, and was estimated at approximately $84 thousands. This amount is charged to profit and loss over the vesting periods.

(5) In October 2014, the Company's Board of Directors approved the grant of options to purchase 581,542 ordinary shares, at an exercise price of NIS 0.2 per share, to the Company's management, Management subsequently agreed that the exercise price of fifty-percent of such options will increase to equal the price at which the Company's ordinary shares are sold to the public in the IPO, or if units are sold in the IPO, the exercise price per share will increase to be equal to the effective price per share of the ordinary shares underlying the units sold to the public in the offering, and will vest and become exercisable only upon the consummation of the IPO. The remaining options with an NIS 0.2 exercise price will vest on a quarterly basis in eight equal installments during a period of 24 months from issuance. Upon the closing of the IPO on February 24, 2015, any unvested portion of these warrants became fully vested and exercisable. The compensation expense was based on the fair value on the grant date, and was estimated at approximately $1.7 million. This amount is charged to profit and loss over the vesting periods.

F-31

CHECK CAP LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 - SHARE BASED PAYMENT (Cont.)

A. Details of share-based grants made by the Company: (Cont.)

In addition, in October 2014, the Company's Board of Directors approved the grant of 221,539 warrants to purchase ordinary shares NIS 0.2 par value of the Company at an exercise price of NIS 0.2 per share to Pontifax in consideration of their commitment to provide to the Company, for no consideration, business development services and a representative designated by Pontifax to serve as the chairman of our board of directors. Pontifax subsequently agreed that the exercise price of fifty-percent of such warrants will increase to equal the price at which the Company's ordinary shares are sold to the public in the IPO or if units are sold in the IPO, the exercise price per share will increase to be equal to the effective price per share of the ordinary shares underlying the units sold to the public in the offering, and will vest and become exercisable only upon the consummation of the IPO prior to their expiration date. The remaining warrants with an NIS 0.2 exercise price will vest on a quarterly basis in eight equal installments during a period of 24 months from issuance. Upon the closing of the IPO on February 24, 2015, any unvested portion of these warrants became fully vested and exercisable. In addition, Pontifax agreed to reduce the term of the warrants such that these warrants will now expire after eight years (instead of ten years) following their issuance, i.e., on October 14, 2022, The compensation expense was based on the fair value on the grant date, and was estimated at approximately $667 thousands. This amount is charged to profit and loss over the vesting periods.

The amendments to the terms of the warrants were such that the value of the warrants after the amendment was lower than the value before the amendment. According to the provisions of IFRS 2 Share-based Payments the decrease in value was not recorded and the expenses are calculated on the value at the date of grant.

B. Options Fair Value:

The fair value of the options granted was estimated by applying the Black Scholes Merton model. While calculating the share-based payments expenses, the Company took into account the estimated forfeiture rate of the options, based on the employees' class.

The parameters which were used in applying the model are as follows:

Element	October 2014	June 2013	April-August 2012
Share price (in $)	3.01	3.04	1.4(**)
Exercise price (in $)	(***)	4.96	4.96
Expected volatility (in %) (*)	50-60	40-60	64-67
Option term (in years)	5-6	5-10	5-10
Risk free interest rate (in %)	1.45-1.72	0.75-2.25	0.75-2.25
Anticipated rate of dividends (in %)	0	0	0

(*)Since the shares of the Company were not traded prior to the consummation of the IPO, the expected volatility was determined on the basis of the historic volatility of the share price of peer companies whose shares are traded on the stock exchange.

(**)Based on funds raising close to the date of vesting.

(***)See Note 12A(5).

In the absence of historical data as to the expected term of the options, management determines the expected term of the options based on the midpoint between the available exercise dates (the end of the vesting periods) and the last available exercise date (the contracted expiration date).

CHECK CAP LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 - SHARE BASED PAYMENT (Cont.)

C. Effect of share-based payment transactions on the Company's profit or loss and on the financial position:

	For the year ended December 31, 2014	2013	2012
	in USD thousands		
The part of the expense settled by equity instruments of the Company	312	53	31

D. Additional details of options granted to employees:

	Number of options	Weighted average of exercise price USD
Balance as of January 1, 2013	700,428	2.72
Granted	117,750	4.96
Forfeited	(46,732)	3.42
Balance as of December 31, 2013	771,446	3.02
Granted	581,542	2.56
Forfeited	(53,474)	4.94
Balance as of December 31, 2014	1,299,514	2.73

	Options granted to employees and are exercisable Number of options	Weighted average remaining term of the options Years
Balance as of December 31, 2013	594,916	6.01
Balance as of December 31, 2014	619,057	5.15

NOTE 13 - RESEARCH AND DEVELOPMENT EXPENSES, NET

Composition:

For the year ended December 31, 2014	2013	2012

in USD thousands

Salaries and related expenses	2,425	2,170	2,091
Share-based payment	104	41	25
Materials	385	307	329
Subcontractors	294	218	330
Depreciation and amortization	72	70	67
Cost for registration of patents	72	118	52
Others	123	110	29
	3,475	3,034	2,923
Less participation of the OCS and BIRD Foundation	(367)	(372)	(231)
Total research and development, net	3,108	2,662	2,692

F-33

CHECK CAP LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 - GENERAL AND ADMINISTRATIVE EXPENSES

Composition:

	For the year ended December 31, 2014	2013	2012
	in USD thousands		
Expenses for employee benefits	952	683	653
Share-based payment	208	16	6
Professional services	113	95	70
Office rent and maintenance	105	104	142
Depreciation and amortization	7	7	7
Others	317	185	325
Total general and administrative	1,702	1,090	1,203

NOTE 15 - FINANCING INCOME

Composition:

	For the year ended December 31, 2014	2013	2012
	in USD thousands		
Interest income on short term deposits	10	59	183
Changes in provision for royalties	416	-	233
Changes in fair value of financial assets and liabilities designated at fair value through profit and loss	362	4	-
Total financing income	788	63	416

NOTE 16 - FINANCING EXPENSES

Composition:

	For the year ended December 31, 2014	2013	2012
	in USD thousands		
Bank fees and Interest expenses	5	5	6
Current changes in provision for royalties	30	256	85
Changes in fair value of financial assets and liabilities designated at fair value through profit and loss	-	55	116
Exchange rate differences	19	-	22
Total financing expenses	54	316	229

Explanation of Responses:

CHECK CAP LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 17 - LOSS PER SHARE

Basic loss per share:

Instruments that may potentially dilute the basic loss per share in the future, but were not included in the calculation of diluted loss per share, since their effect is anti-dilutive.

	For the year ended December 31,		
	2 0 1 4	2 0 1 3	2 0 1 2
	in USD thousands		
Weighted average number of ordinary shares used in calculating loss per share	2,181	1,627	1,627
Adjustments:			
Warrants and share options	780	650	590
Preferred shares	4,339	4,339	4,339
	7,300	6,616	6,556

(1) Includes (i) the CEO Options to purchase 99,774 ordinary shares, with an exercise price of NIS 0.20, granted to the Company's CEO on May 11, 2010. The CEO Options were fully vested on the grant date. The compensation expense was based on the fair value on the grant date and was estimated at approximately $96 thousands. This amount was charged to profit and loss on grant date; and (ii) Anti-dilution Warrants to purchase an aggregate of 375,204 ordinary shares, which were issued by the Company, free of charge, to all of its shareholders (except for certain ordinary shareholders) as anti-dilution protection due to the grant of the CEO Options. These Anti-dilution Warrants will be automatically exercised, without further discretion on the part of the warrant holders and for no consideration, upon the exercise of the CEO Options by the Company's CEO. Immediately prior to the consummation of the IPO, the CEO exercised the CEO options and 171,715 Anti-dilution Warrants issued to shareholders were automatically exercised, and the holders of the remaining 203,489 Anti-dilution Warrants issued to shareholders objected to such exercise.

(2) The Company accounted for the CEO Options, the Anti-dilution Warrants issued to shareholders and CLA Warrants (see Note 11E(6)) as outstanding for the purpose of calculating basic loss per share as the CEO Options, such Anti-dilution Warrants and CLA Warrants are considered issuable shares for little or no cash or other consideration. Under IAS 33, when shares are issued for little or no consideration, they are considered outstanding for purpose of the calculation of basic loss per share.

NOTE 18 - FINANCIAL INSTRUMENTS

A. Financial instruments fair value:

The carrying amount of the Company's financial instruments equals or approximates their fair value other than the reimbursement liability to the Predecessor Entity's unit holders (See Note 4B3 and 10A), which its fair value as of December 31, 2014 is lower by approximately $23 thousands then its carrying amount. As of December 31, 2013, the fair value of such liability was lower by approximately $150 thousands than its carrying amount.

F-35

CHECK CAP LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 18 -FINANCIAL INSTRUMENTS (Cont.)

B. Financial instruments according to category:

	For the year ended December 31,		
	2 0 1 4	2 0 1 3	2 0 1 2
	in USD thousands		
Financial assets:			
Cash and cash equivalents	1,075	4,975	4,583
Restricted deposit	46	46	43
Receivables on account of share options	4,800	-	-
Short-term investment	-	-	3,450
Other current assets	117	130	164
	6,038	5,151	8,240
Financial liabilities:			
Current liabilities:			
Trade accounts payable	333	221	140
Other current liabilities	1,369	141	140
Employee benefits liabilities	1,122	658	509
Non-current liabilities:			
Royalties provision	2,509	2,577	2,046
Other financial liabilities	225	587	532
	5,558	4,184	3,367

C. Purposes of financial risk management:

The Company's finance department renders services for business operations, permits access to local and international financial markets, supervises and administers the financial risks related with the activities of the Company by means of internal reports which analyze the extent of exposure to risks according to their level and intensity. These risks include market risks (including foreign currency risk) and liquidity risk.

D.Market risk:

Foreign currency risk:

The Company's functional currency is the U.S. dollar. The Company's exposures to the fluctuations occurring in the rates of exchange between the U.S. dollar and the New Israeli Shekel result mainly from salaries and related expenses that are stated in NIS.

The Company acts to reduce the currency risk by means of holding its liquid resources in short-term deposits (NIS and dollars).

During the year ended December 31, 2014, no change took place in the exposure to currency risk or in the manner in which the Company manages and measures the risk.

CHECK CAP LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 18 -FINANCIAL INSTRUMENTS (Cont.)

The book values of the financial assets and liabilities of the Company denominated in foreign currency are as follows:

	Liabilities December 31,		Assets December 31,	
	2 0 1 4	2 0 1 3	2 0 1 4	2 0 1 3
	in USD thousands		in USD thousands	
NIS	1,271	940	1,055	490
Euro	151	171	-	-

Sensitivity analysis of foreign currency:

As stated above, the Company is exposed mainly to the NIS currency since salaries and related expenses are stated in NIS.

The following table itemizes the sensitivity to an increase or a decrease of 10% in the relevant exchange rate. 10% is the rate of sensitivity representing the assessments of management with respect to the reasonable possible change in exchange rates. The sensitivity analysis includes current balances of monetary items denominated in foreign currency and conforms their translation at the end of the period to a change of 10% in foreign currency rates.

	Effect of NIS currency December 31,	
	2 0 1 4	2 0 1 3
	in USD thousands	
Pre-tax effect of increase of 10% in the $ currency vis-à-vis the NIS:		
Effect on profit or loss and other comprehensive income for the year	20	41
Effect on equity (deficiency)	20	41
Pre-tax effect of decrease of 10% in the $ currency vis-à-vis the NIS:		
Effect on profit or loss and other comprehensive income for the year	(22)	(45)
Effect on equity (deficiency)	(22)	(45)
Pre-tax effect of increase of 10% in the $ currency vis-à-vis the Euro:		
Effect on profit or loss and other comprehensive income for the year	14	16
Effect on equity (deficiency)	14	16
Pre-tax effect of decrease of 10% in the $ currency vis-à-vis the Euro:		
Effect on profit or loss and other comprehensive income for the year	(15)	(17)
Effect on equity (deficiency)	(15)	(17)

CHECK CAP LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 18 -FINANCIAL INSTRUMENTS (Cont.)

E.Management of credit risk:

Most of the Company’s receivables are from government institutions that have little to no credit risk exposure.

Moreover, the Company holds cash and cash equivalents in various financial institutions. These financial institutions are located in Israel and the United States. Pursuant to the Company’s policies, evaluations of the relative financial stability of the different financial institutions are performed on a current basis.

F.Liquidity risk:

Careful management of liquidity risk requires a sufficient cash balance to support operating activities. Management constantly analyzes cash balances forecasts which comprised of cash and cash equivalents and assets at fair value through profit and loss. This analysis is based on forecasted cash flows, in accordance with policies and restrictions set by the Company.

The Company keeps a sufficient level of cash and cash equivalents, by taking into account the cash required for its operating activities, in order to reduce the liquidity risk which the Company is exposed to.

NOTE 19 -FAIR VALUE

Fair value hierarchy:

The table below presents an analysis of the financial instruments measured at fair value, using a valuation method:

The different levels were defined as follows:

(1) Level 1: Quoted prices (unadjusted) in an active market for identical instruments.
(2) Level 2: Data observed directly or indirectly that are not included in Level 1 above.
(3) Level 3: Data not based on observable market data.

	For the year ended December 31	
	2 0 1 4	2 0 1 3
	Level 3	
	in USD thousands	
Other financial liabilities	225	587
Total	225	587

The fair value of the financial liability included in the level 3 categories above has been determined in accordance with generally accepted pricing models based on a Black Scholes Merton formula, with the most significant inputs being share price, exercise price, volatility, risk free rate and contractual term.

CHECK CAP LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 20 - TRANSACTIONS WITH INTERESTED PARTIES AND RELATED PARTIES

A. Compensation to key management personnel and interested parties:

	For the year ended December 31, 2014	2013	2012
	in USD thousands		
Salary and related expenses to interested parties employed by the Company	731	403	436
Number of personnel to which benefit applies	2	2	2
Salary and related expenses to key management personnel	519	381	195
Number of personnel to which benefit applies	2	2	1
Share based payment to interested parties and key management personnel (*)	268	46	31
Number of personnel to which benefit applies	5	5	5

(*)See Note 12A(5).

B. Transactions with interested and related parties:

	For the year ended December 31, 2014	2013	2012
	in USD thousands		
Consultation (1)	40	40	37
Key man life insurance premium (2)	11	9	8
Management fees (3)	-	-	80
	51	49	125

(1)On July 1, 2005, the Company entered into an agreement with Hadar Kimchy according to which Hadar Kimchy provides marketing communication and graphical design services to the Company in consideration for a monthly retainer of NIS 10,260 ($3 thousands). On August 1, 2014, the monthly retainer was increased to NIS 13,680 ($4 thousands). The above services are provided to the Company by Sigalit Kimchy, who is employed by Hadar Kimchy. Sigalit Kimchy is a shareholder and is the spouse of Yoav Kimchy, the Company's chief technology officer and a director.

(2)In connection with the asset transfer agreement entered into with the Predecessor Entity in May 2009, the Company assumed the former obligation of the Predecessor Entity to distribute any proceeds it collects on the $1,000,000 key man life insurance policy with respect to Yoav Kimchy, the Company's chief technology officer and a director, to the former holders of the Series A preferred units in an amount equal to their respective capital contributed to the Predecessor Entity, less any amounts previously distributed to them, plus any accrued and unpaid dividends due to them as of the date of distribution.

(3)Check-Cap Ltd. (Delaware), which is the manager of the Predecessor Entity and is wholly-owned by Mr. Kimchy, the Company's chief technology officer and a director, handled from time to time certain logistical, administrative and investor relations matters for us with the Company's U.S. suppliers and investors, in consideration of a quarterly payment of $20,000, which amount essentially covers Check-Cap Ltd. (Delaware)'s costs of performing these functions. The Company last utilized such services as of December 31, 2012.

F-39

CHECK CAP LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 20 - TRANSACTIONS WITH INTERESTED PARTIES AND RELATED PARTIES (cont.)

C. Liabilities to interested parties and other related parties:

	December 31, 2014	December 31, 2013
	in USD thousands	
Current liabilities-		
Trade accounts payable	52	34
Employee benefits liabilities	516	108
Non-current liabilities-		
Reimbursement liability to Predecessor Entity's unit holders	426	788

NOTE 21 - SUBSEQUENT EVENTS

A. Loan from Bank Leumi:

On January 4, 2015, the Company entered into a credit line agreement with Bank Leumi pursuant to which it was entitled to obtain a credit line in the principal amount of up to 1,000,000 (“the Bank Leumi Credit Facility”). The Bank Leumi Credit Facility was required to be repaid in full by us no later than April 1, 2015 and Bank Leumi’s consent was required for early repayment. The drawn portion of the Bank Leumi Credit Facility bore interest at an annual rate of LIBOR plus 5.25% on the basis of a 365-day year, until paid in full. We drew the entire $1,000,000 Bank Leumi Credit Facility. We paid Bank Leumi a facility fee of $20,000 in connection with the facility. To secure the repayment of the Bank Leumi Credit Facility, we granted Bank Leumi (i) a first ranking fixed charge over the Company’s goodwill; and (ii) a first ranking floating charge over all of the assets and rights of any type whatsoever, which the Company now has or may acquire in the future, subject to the rights of the OCS and the BIRD Foundation and the rights under existing and future liens in favor of the First Intentional Bank of Israel Ltd. securing debt or indentures of up to an aggregate amount of $100,000. On March 16, 2015, the Company repaid all amounts outstanding under the Bank Leumi Credit Facility with the proceeds of the IPO and concurrent private placement.

B. On January 15, 2015, the Board of directors resolved to increase the number of ordinary shares by 4% of our fully-diluted share capital (including the option pool) immediately following the consummation of this offering. As a result, the number of the Company's ordinary shares reserved for issuance under the 2006 Unit Option Plan increased by 967,747.

C. On January 21, 2015, 8,366 preferred C2 share warrants expired.

D. On February 24, 2015, the Company consummated an IPO of 2,000,000 units (issued together with 3,000,000 Long Term Incentive Warrants), at a public offering price of $6 per unit, before underwriting discounts and offering expenses. See also Note 1A(2).

E. On February 24, 2015, concurrently with the consummation of the IPO, the Company completed a private placement of approximately 2,000,000 units (issued together with 3,000,000 Long Term Incentive Warrants), at a price of $6 per unit, before issuance costs. See also Note 1A(3).

F. Immediately prior to the consummation of the IPO, the CEO exercised the CEO Options and 171,715 Anti-dilution Warrants were automatically exercised. See also Note 11E(3).

G. On March 17, 2015, 830,583 preferred D2 warrants and 25,196 preferred D1 warrants expired.

CHECK CAP LTD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 21 -SUBSEQUENT EVENTS (cont.)

H. On April 6, 2015, the Company's Board of Directors resolved to increase the number of ordinary shares of the Company reserved for issuance under the 2006 Unit Option Plan by 1,718,540 shares.

I. Further to Note 11E(6), during February, March and April 2015, certain Private Placement investors exercised warrants to purchase on aggregate 569,355 ordinary shares of the Company at a price per share equal to NIS 0.2.