



Medgenics, Inc.
('Medgenics' or the 'Company')

**MEDGENICS ANNOUNCES PRELIMINARY RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

Misgav, Israel and London, UK – 18 June, 2008 — Medgenics (AIM: MEDG), the US-incorporated biopharmaceutical company developing the 'Biopump' sustained-action protein therapy for the treatment of chronic diseases, is pleased to announce its first full year results since the admission of the Company's shares to trading on AIM. The Annual Report and Accounts of the Company and its subsidiary (the Group) for the year ended 31 December 2007 will be posted to shareholders during the week commencing 23 June 2008 and will be available on the Company's website (www.medgenics.com).

Key Points for the period:

- Successful fund raising and admission to AIM on 4 December 2007, raising gross proceeds of £3.28 million (US \$6.72 million)¹.
- The proceeds of the fund raising are being used to fund the second clinical trial, which will be a Phase I/II safety and efficacy study of its lead sustained-action protein therapy to treat anaemia, and to further develop and test its Biopump platform technology and products.
- Increased consolidated net assets of \$3.3 million (2006: \$987,000)
- Increased cash on hand at 31 December 2007 of US \$4.7 million (2006: \$1.6 million).
- Net loss after tax of US \$3.9 million (2006: US \$2.6 million).

Highlights since admission:

- Appointment of Lord Steinberg as Non-Executive Director in February 2008.
- Application submitted for approval of the Phase I/II trial of its EPODURE protein therapy to the Israel Ministry of Health (MoH) in February 2008.
- Appointment of Dr. Ehud Shoshani, former CEO of Quintiles, Israel, as Vice President of Clinical Affairs and addition of key scientific and engineering personnel in accordance with its plan and preparation for the Phase I/II clinical trial for EPODURE.

¹ Exchange rate: £1.00 = \$2.06 as at 26 November 2007

- Successful manufacture of the key 'gutless' adenoviral vector in a GMP (Good Manufacturing Practice) vector production facility. This vector will be used to prepare EPODURE Biopumps capable of producing sufficient daily amounts of erythropoietin (EPO) to meet the Group's requirements for use in its forthcoming Phase I/II clinical trial in anaemic patients with chronic kidney disease.
- Completion of the design, fabrication and evaluation of the key proprietary patient contact devices that will be used both to enable Medgenics to conduct its current Phase I/II clinical trial and to assist in future clinical trials.
- Successful move to a new larger facility, allowing the corporate and R&D operations to be housed in one location.

Commenting on the results Dr. Andrew Pearlman, Chief Executive Officer of Medgenics, said:

“2007 was an important year for Medgenics, culminating in our successful fund raising and admission to AIM in December 2007 in what was and still remains a turbulent economic climate. Since then, we have made excellent progress with our preparations for the start of the Phase I/II safety and efficacy clinical trial of our EPODURE Biopump for treating anaemia. We remain on track to begin this important trial mid-year and are expecting further guidance from the Israel Ministry of Health following its meeting on 1 July 2008. Key initial safety and efficacy data for EPODURE is expected 3-5 months after the trial commences. The next few months, therefore, will be very exciting for the Company and I look forward to reporting further progress over the coming weeks and months.”

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NOTES TO EDITORS:

Medgenics, Inc. is a clinical-stage biopharmaceutical company developing its unique tissue-based Biopump platform technology to provide sustained-action protein therapy for the treatment of a range of chronic diseases.

Medgenics currently has two products in development based on this technology:

- EPODURE – producing erythropoietin (EPO) to treat anaemia
- INFRADURE – producing interferon-alpha (IFN- α) to treat hepatitis C

The Company has demonstrated proof of principle of the Biopump treatment procedure in a clinical trial using a short-acting version of EPODURE in anaemic patients. A long-acting version of EPODURE, designed to produce and deliver a therapeutic dose of EPO steadily for six months or more, is scheduled to enter a Phase I/II trial in mid-2008. The Company plans to follow with a clinical trial of INFRADURE in 2009.

Medgenics intends to develop its innovative products and bring them to market via multiple strategic partnerships with major pharmaceutical and/or medical device companies, starting with EPODURE and INFRADURE.

Beyond these, Medgenics plans to develop and/or out-license a pipeline of future Biopump products targeting the large and rapidly growing global protein therapy market, which is forecast to reach US \$87 billion by 2010. Other potential areas include multiple sclerosis (interferon- β), haemophilia (Factor XIII), paediatric growth hormone deficiency (human growth hormone) and diabetes (insulin).

Founded in 2000, Medgenics is a US-incorporated company with major operations in Misgav, Israel. Medgenics was admitted to AIM in December 2007 (AIM: MEDG).

www.medgenics.com

CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

This release contains forward-looking statements, which include all statements other than statements of historical fact, including (without limitation) those regarding the Company's financial position, business strategy, plans and objectives of management for future operations. These statements relate to future events, prospects, developments and strategies. Forward-looking statements are sometimes identified by their use of the terms and phrases such as "estimate," "project," "intend," "forecast," "anticipate," "plan," "planning," "expect," "believe," "will," "will likely," "should," "could," "would," "may" or the negative of such terms and other comparable terminology. All such forward-looking statements are based on current expectations and are subject to risks and uncertainties. Should any of these risks or uncertainties materialize, or should any of the Company's assumptions prove incorrect, actual results may differ materially from those included within these forward-looking statements. Accordingly, no undue reliance should be placed on these forward-looking statements, which speak only as of the date made. The Company expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based. As a result of these factors, the events described in the forward-looking statements contained in this release may not occur.

Chairman's Review

It is with great pleasure that the Board presents Medgenics' financial results for the 12 months ended 31 December 2007 and, in particular, reports on the progress we have made towards starting our key Phase I/II safety and efficacy clinical trial.

Operational Review

Medgenics is developing a revolutionary approach to treating chronic diseases, using a proprietary platform technology, a biological "Biopump", enabling patients to produce their own natural human protein therapy. We believe this technology has the potential to significantly improve the treatment of such diseases by improving efficacy, reducing side-effects, eliminating frequent injections, improving patient compliance and quality of life and reducing overall healthcare costs associated with existing treatments.

The majority of activities undertaken during the 12 months under review relate to securing the necessary funding which has enabled us to achieve important milestones towards the commencement of the Phase I/II safety and efficacy clinical trial with our lead protein therapy Biopump, EPODURE, to treat anemia.

The Company was admitted to AIM in December 2007 after a successful initial fund raising that raised £3.28 million (US \$6.72 million) against the backdrop of a turbulent financing environment in the UK and internationally, especially for cutting edge technology companies at Medgenics' stage of development.

The proceeds of the fund raising have enabled the Company to progress according to its plans for starting a second clinical trial, the Phase I/II safety and efficacy study, of our lead sustained-release protein therapy product EPODURE in anaemia patients with chronic kidney disease. EPODURE is designed to produce and deliver EPO safely for up to six months or more from a single procedure.

In addition, these funds have been and will be used for the further development and testing of our Biopump platform technology and associated products to enable the Company to build a pipeline of novel protein therapy products targeting chronic diseases.

Our long-term strategy is to develop a strategic alliance with a major partner in order to proceed (in the long-term) with further clinical trials and eventual FDA, EMEA and/or other regulatory approvals and commercialization of EPODURE and other potential applications of the Biopump platform technology. Pending the success of the Phase I/II trial of EPODURE, our next product is likely to be INFRADURE, which we are developing to produce and deliver interferon-alpha for the treatment of hepatitis C. In preclinical *in vitro* studies with this product we have already demonstrated that it can produce therapeutically relevant amounts for more than six months.

Beyond that, we believe our Biopump technology has the potential to be developed to produce and deliver protein therapies to treat other chronic diseases such as multiple sclerosis (interferon-beta), hemophilia (Factor VIII) and growth failure/muscular atrophy (human growth hormone).

Preparation for Phase I/II trial of EPODURE

Medgenics has made excellent progress with its preparations to commence its Phase I/II trial of EPODURE and remains confident it will begin this trial, in mid-2008, as planned. We expect to obtain the key initial safety and efficacy data for EPODURE within 3-5 months of the trial commencing.

The Phase I/II clinical trial is planned to take place at the Hadassah Hospital in Jerusalem, Israel. In September 2007 Medgenics received initial approval of its trial protocol from the Ethics Committee of Hadassah Hospital, conditional upon final approval from the MoH.

Medgenics submitted its application for approval of the Phase I/II clinical trial of its EPODURE anaemia therapy to MoH in February 2008. The application is currently in active review by MoH and Medgenics expects further guidance from MoH after its meeting on July 1, 2008. Pending the positive outcome of this meeting, Medgenics is ready to commence the trial shortly thereafter.

Important Milestones since the year-end

Medgenics' application for approval of the Phase I/II clinical trial parallels the Company's achievement of several important milestones in recent months, which are crucial to allowing the trial to begin:

- We have significantly enhanced the clinical and technical teams that will be driving the trial forward. In particular, we are very pleased that Dr. Ehud Shoshani, former CEO of Quintiles, Israel, has joined the Company as Vice President of Clinical Affairs. Dr. Shoshani has 13 years' experience in managing clinical trials. Not only will his experience be highly valuable to Medgenics in completing the preparations for and the launch and the management of our imminent Phase I/II clinical trial for EPODURE, but also, in the development of our future clinical programmes for this and our other pipeline products.
- We have successfully manufactured the key 'gutless' adenoviral vector in a GMP vector production facility was a significant achievement for the Company from a technological standpoint. We have tested this vector and are confident that it will be used to prepare EPODURE Biopumps capable of producing sufficient daily amounts of EPO to meet the Company's requirements for use in the trial.
- The Company has completed the design, fabrication and evaluation of the key proprietary devices required for harvesting patient micro-organs and implanting Biopumps, including EPODURE, back into patients.
- The Group's operations were relocated to a new facility in March 2008 in the Teradion Business Park in Misgav, thereby bringing all operations under one roof and representing an important step for enhancing communication among the various departments.

Board Appointment

Medgenics appointed Lord Leonard Steinberg as Non-Executive Director in February 2008. Lord Steinberg is a Life Peer and a Conservative Party member of the UK House of Lords and is the founder, former Chairman and Life President of Genting Stanley plc (formerly Stanley Leisure plc). He is one of the UK's most successful and respected businessmen, with substantial experience of the London stock market. We are very pleased that he joined the Board of Directors and we look forward to the valuable contribution he will make to the Company.

Financial Review

- * Net research and development expenses were \$2.0 million (2006: \$748,000)

- * Group general and administrative expenses were \$1.4 million (2006: \$1.8 million)
- * Operating loss was \$3.4 million (2006: \$2.6 million)
- * Loss on ordinary activities before taxation for the year was \$3.9 million (2006: \$2.6 million)
- * Loss per share was \$0.06 (2006: \$0.07)
- * Cash at bank at the year-end was \$4.7 million (2006: \$1.6 million)
- * Consolidated balance sheet has increased net assets of \$3.3 million (2006: \$987,000)

Outlook

Excellent progress has been made during the past 18 months with the preparations to commence the Phase I/II trial of EPODURE. We are now ready and waiting for approval to come in from the MoH to begin the trial. All the evidence we have seen on the effectiveness of the Biopump technology in various preclinical and clinical studies give us great confidence that the forthcoming trial will be successful and we look forward to reporting further progress over the coming weeks and months.

Eugene A. Bauer, MD
Chairman of the Board of Directors

18 June 2008

MEDGENICS, INC. AND ITS SUBSIDIARY
(A company in the development stage)
CONSOLIDATED BALANCE SHEETS

In US Dollars

	Note	December 31,	
		2007	2006
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3	\$4,683,914	\$1,607,474
Accounts receivable and prepaid expenses	4	394,652	193,972
<u>Total current assets</u>		5,078,566	1,801,446
SEVERANCE PAY FUND		92,235	29,513
PROPERTY AND EQUIPMENT, NET		134,240	58,689
		\$5,305,041	\$1,889,648
<u>Total assets</u>		\$5,305,041	\$1,889,648
 LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short – term bank credit		\$ 9,714	\$ 17,644
Trade payables	5	459,117	133,095
Other accounts payable and accrued expenses	6	845,653	422,649
<u>Total current liabilities</u>		1,314,484	573,388
ACCRUED SEVERANCE PAY		662,791	329,509
<u>Total liabilities</u>		1,977,275	902,897
 COMMITMENTS AND CONTINGENCIES			
SHAREHOLDERS' EQUITY:			
Common shares - \$0.0001 par value; 500,000,000 and 534,787,250 shares authorized at December 31, 2007 and 2006, respectively; 104,093,417 and 57,405,326 shares issued and outstanding at December 31, 2007 and 2006, respectively	7	10,409	268
New preferred shares - \$0.0001 par value; 0 and 10,000,000 shares authorized at December 31, 2007 and 2006, respectively		-	-
Additional paid-in capital		28,634,642	22,452,429
Deficit accumulated during the development stage		(25,317,285)	(21,465,946)
<u>Total shareholders' equity</u>		3,327,766	986,751
		\$5,305,041	\$1,889,648

The accompanying notes are an integral part of this preliminary results announcement.

MEDGENICS, INC. AND ITS SUBSIDIARY
(A company in the development stage)
CONSOLIDATED STATEMENTS OF OPERATIONS

In US Dollars (except for share data)

	Note	Year ended December 31		Period form inception (January 27, 2000) through December 31, 2007
		2007	2006	
Research and development expenses, net		\$1,986,710	\$ 748,161	\$13,388,564
General and administrative expenses		1,439,054	1,821,613	11,389,859
Loss from disposal of property and equipment		-	3,453	325,842
Operating loss		3,425,764	2,573,227	25,104,265
Financial expenses, net		414,972	25,378	583,538
Loss before taxes on income		3,840,736	2,598,605	25,687,803
Taxes on income	8	10,603	-	66,679
Net loss		\$3,851,339	\$2,598,605	\$25,754,482
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Basic and diluted net loss per share		\$ 0.06	\$ 0.07	
Weighted average number of shares used in per share calculation		64,968,152	31,455,474	
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MEDGENICS, INC. AND ITS SUBSIDIARY
(A company in the development stage)

CONSOLIDATED STATEMENTS OF CASH FLOWS

In US Dollars

	<u>Year ended December 31</u>		<u>Period from inception (January 27, 2000) through December 31 2007</u>
	<u>2007</u>	<u>2006</u>	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$ (3,851,339)	\$(2,598,605)	\$(25,754,482)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	14,683	10,059	647,467
Exchange differences on long term loan	-	-	2,950
Loss from disposal of property and equipment	-	3,453	325,842
Interest on convertible note	-	30,953	247,847
Issuance of shares in consideration for providing security for letter of credit	15,748	-	15,748
Stock based compensation related to options and warrants granted to consultants and employees	346,802	1,161,287	3,975,580
Amortization of beneficial conversion feature of convertible note	511,391	-	511,391
Accrued severance pay, net	270,560	124,496	570,556
Increase in trade payables	308,779	128,823	441,874
Increase in accounts receivable and pre-paid expenses	(200,680)	(192,383)	(394,652)
Increase in other accounts payable and accrued expenses	232,812	142,521	600,479
Net cash used in operating activities	<u>(2,351,244)</u>	<u>(1,189,396)</u>	<u>(18,809,400)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from disposal of property and equipment	-	3,505	172,829
Purchase of property and equipment	(72,991)	(75,706)	(1,263,135)
Net cash used in investing activities	<u>(72,991)</u>	<u>(72,201)</u>	<u>(1,090,306)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of shares, net	4,458,605	2,717,688	21,979,631
Repayment of long-term loan	-	-	(73,080)
Proceeds from long term loan	-	-	70,130
Proceeds from convertible note	1,050,000	-	2,597,225
Increase (decrease) in short-term bank credit	(7,930)	15,614	9,714
Net cash provided by financing activities	<u>5,500,675</u>	<u>2,733,302</u>	<u>24,583,620</u>
Increase in cash and cash equivalents	3,076,440	1,471,705	4,683,914
Balance of cash and cash equivalents at beginning of the period	<u>1,607,474</u>	<u>135,769</u>	<u>-</u>
Balance of cash and cash equivalents at end of the period	<u>\$4,683,914</u>	<u>\$ 1,607,474</u>	<u>\$ 4,683,914</u>

The accompanying notes are an integral part of this preliminary results announcement.

MEDGENICS, INC. AND ITS SUBSIDIARY
(A company in the development stage)
CONSOLIDATED STATEMENTS OF CASH FLOWS

In US Dollars

	Year ended December 31		Period from inception (January 27, 2000) through December 31
	2007	2006	2007
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Interest	\$ 15,583	\$ 555	\$ 38,426
Taxes	\$ 2,101	\$ 791	\$ 56,143
Supplemental disclosure of non cash flow information:			
Accrued issuance expenses	\$ 309,741	\$ 150,998	\$ 460,739
Issuance of common shares upon conversion of a convertible note	\$ 1,050,000	\$ 1,795,072	\$ 2,845,072
Issuance of shares in settlement of debt due	\$ -	\$ 96,016	\$ 96,016
Issuance cost due to obligation to issue common share to consultant	\$ 31,449	\$ -	\$ 31,449
Purchase of property and equipment	\$ 17,243	\$ -	\$ 17,243

The accompanying notes are an integral part of this preliminary results announcement.

MEDGENICS, INC. AND ITS SUBSIDIARY
(A company in the development stage)
NOTES TO THE PRELIMINARY RESULTS

In US Dollars

NOTE 1:- GENERAL

- a. Medgenics, Inc. ("the Company") was incorporated in January 2000 in Delaware, and is a holding company with one wholly-owned subsidiary Medgenics Medical Israel Ltd. (formerly Biogenics Ltd.) ("The subsidiary") which was incorporated in Israel in March 2000. The Company and its subsidiary are engaged in the research and development of products in the field of biotechnology and associated medical equipment and are thus considered development stage companies as defined in Statement of Financial Accounting Standards No. 7 "Accounting and Reporting by Development Stage Enterprises ("SFAS No.7").

On December 4, 2007 the Company's Common shares were admitted to trading on the AIM market of the London Stock Exchange. Concurrently the Company placed 9,640,000 Common shares at a per share price of GBP 0.10 (\$0.21), issued 18,897,213 Common shares and 3,084,422 Common shares to investors and consultants', respectively, and issued additional 6,417,447 Common shares resulting from the conversion of a convertible note, for a total gross consideration of GBP 3,276,985 (\$6,719,075)).

- b. The Company and its subsidiary are in the development stage. The subsidiary ceased operating in 2004 and in 2006 renewed its research on development activities after having raised additional funds. As reflected in the financial statements, the Company and its subsidiary incurred a loss in 2007 of \$ 3,851,339 and have an accumulated deficit since inception in the amount of \$ 25,317,285. The Company and its subsidiary have not yet generated revenues and have negative cash flows from operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans include seeking additional investments to continue the operations of the Company and its subsidiary. However, there is no assurance that the Company will be successful in its efforts to raise the necessary capital to continue its planned research and development activities. The consolidated financial statements do not include any adjustments with respect to the carrying amounts of assets and liabilities and their classification that might result from the outcome of this uncertainty.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The attached financial information is prepared in accordance with United States Generally Accepted Accounting Principles ("U.S. GAAP"). The financial information set out in this announcement does not constitute the company's statutory accounts for the years ended 31 December 2007 or 2006. Statutory accounts for 2007 will be delivered to shareholders in the week commencing 23 June 2008 and will be available on the Company's website (www.medgenics.com). The auditors have reported on those accounts; their report included a reference to the group's going concern status to which the auditors drew attention by way of emphasis without qualifying their report.

a. Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions. The Company's management believes that the estimates, judgments and assumptions used are

reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

b. Financial statements in Dollars

The majority of the subsidiary's operations are currently conducted in Israel, however, most of the expenses are denominated in or linked to U.S. Dollars ("Dollars"). Financing activities including loans, equity transactions and cash investments, are made mainly in Dollars. The Company's management believes that the Dollar is the primary currency of the economic environment in which the subsidiary operates. Thus, the functional and reporting currency of the subsidiary is the Dollar.

Accordingly, transactions and balances denominated in Dollars are presented at their original amounts. Non-Dollar transactions and balances have been re-measured to Dollars, in accordance with Statement No. 52 of the Financial Accounting Standards Board ("FASB"). All exchange gains and losses from re-measurement of monetary balance sheet items denominated in non-Dollar currencies are reflected in the statements of operations as financial income or expenses, as appropriate.

c. Consolidated financial information

The financial information includes the accounts of the Company and its wholly owned subsidiary. Inter-company transactions and balances have been eliminated upon consolidation.

d. Cash and cash equivalents

The Company and its subsidiary consider all highly liquid investments originally purchased with maturities of three months or less to be cash equivalents.

e. Impairment of long-lived assets

Long-lived assets are reviewed for impairment in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment of Disposal of Long-Lived Assets" ("SFAS No. 144"), whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of an asset to be held and used is measured by a comparison of the carrying amount of the asset to the future undiscounted cash flows expected to be generated by the assets. If such an asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. As of December 31, 2007, no impairment losses have been identified.

f. Accrued severance pay

The subsidiary's liability for severance pay is calculated pursuant to the Israeli severance pay law based on the most recent salary for the employees multiplied by the number of years of employment, as of the balance sheet date. Employees are entitled to one month salary for each year of employment or a portion thereof. In addition, four employees are entitled to additional severance compensation as per their employment agreement. The subsidiary's liability for all of its employees is fully provided by an accrual and is mainly funded by monthly deposits with insurance policies. The value of these policies is recorded as an asset in the Company's balance sheet.

The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Israeli severance pay law or labor agreements. The value of the deposited

funds is based on the cash surrender value of these policies, and includes immaterial profits.

Severance expense for the years ended December 31, 2007 and 2006 and for the period from inception (January 27, 2000) through December 31, 2007, amounted to \$333,282, \$154,009 and \$1,073,674, respectively.

g. Income taxes

The Company and its subsidiary account for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes" ("SFAS No. 109"). SFAS No. 109 prescribes the use of the liability method whereby deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company and its subsidiary provide a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

On January 1, 2007, the Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109" (FIN 48). FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. As a result of the implementation of FIN 48, the Company recorded a decrease in the net operating losses carried forward ("NOL") in the amount of approximately \$14 million associated mainly with the provisions of section 382 of the U.S. Internal Revenue Code. Section 382 imposes an annual limitation on the use of a loss corporation's pre change NOL's if it has experienced a greater than 50% change in ownership. The decrease in the NOL did not have an effect on the accumulated deficit in the financial statements since the Company has a full valuation allowance for its deferred taxes.

h. Stock based compensation

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)") which requires the measurement and recognition of compensation expense based on estimated fair values for all share-based payment awards made to employees and directors. SFAS 123(R) supersedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), for periods beginning in fiscal 2006.

SFAS 123(R) requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's consolidated income statement. Prior to the adoption of SFAS 123(R), the Company accounted for equity-based awards to employees and directors using the intrinsic value method in accordance with APB 25 as allowed under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123").

The Company adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard starting from January 1,

2006, the first day of the Company's fiscal year 2006. Under that transition method, compensation cost recognized in the years ended December 31, 2007 and 2006 includes compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). Results for prior periods have not been restated.

The Company recognized compensation expenses for awards granted subsequent to January 1, 2006 based on the straight line method over the requisite service period of each of the grants, net of estimated forfeitures.

In 2007 and 2006, the Company estimated the fair value of stock options granted to employees and directors using the Binomial option pricing model with the following assumptions:

	<u>2007</u>	<u>2006</u>
Dividend yield	0%	0%
Expected volatility	50%-71%	68%-73%
Risk-free interest rate	3.5%-4.6%	4.3%-5.1%
Suboptimal exercise factor	2.5-2.7	2.4-2.7
Expected life (in years)	5	5

Expected volatilities are based on historical volatilities from traded stock of similar companies. The Company uses historical data of traded companies to estimate pre and post vesting exit rate within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes.

The suboptimal exercise factor represents the value of the underlying stock as a multiple of the exercise price of the option which, if achieved, results in exercise of the option.

The risk-free interest rate assumption is based on observed interest rates appropriate for the term of the Company's employee stock options.

The Company has historically not paid dividends and has no foreseeable plans to issue dividends.

The Company applies SFAS 123(R) and Emerging Issues Task Force No. 96-18 "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring or in Conjunction with Selling, Goods or Services" ("EITF 96-18"), with respect to options issued to non-employees. SFAS 123(R) requires the use of option valuation models to measure the fair value of the options and warrants. The fair value of these options was estimated at the measurement date using the Binomial option pricing model with the following assumptions:

<u>Binomial</u>	<u>2007</u>	<u>2006</u>
Dividend yield	0%	0%
Expected volatility	61.3%-64.4%	67.5%-72.4%
Risk-free interest rate	3.3%-3.5%	4.9%-5.2%
Expected life (in years)	4-5	4-5

i. Basic and diluted net loss per share

Basic net loss per share is computed based on the weighted average number of Common shares outstanding during each year. Diluted net loss per share is computed based on the weighted average number of Common shares outstanding during each year, plus the dilutive effect of options considered being outstanding during each year, in accordance with Statement of Financial Standards No. 128, "Earnings Per Share".

Net loss in 2006 is adjusted for the excess fair value added to the Deficit Accumulated during the Development Stage upon conversion of preferred shares.

j. Research and development costs

All research and development costs, net of participations, are charged to the statement of operations as incurred.

k. Grants and participation

Royalty-bearing grants from the Office of the Chief Scientist of the Government of Israel for funding approved research and development projects are recognized at the time the Company is entitled to such grants, on the basis of the costs incurred and are presented as a deduction from research and development costs. Research and development grants amounted to \$565,559, \$175,013 and \$1,903,262 for the years ended December 31, 2007 and 2006 and for the period from inception (January 27, 2000) through December 31, 2007, respectively.

NOTE 3:- CASH AND CASH EQUIVALENTS

	December 31,	
	2007	2006
In Dollars	\$1,282,058	\$1,509,353
In GBP	3,382,009	98,120
In NIS	19,847	-
	<u>\$4,683,914</u>	<u>\$1,607,474</u>

NOTE 4:- ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31,	
	2007	2006
Grant receivable	\$156,553	\$175,013
Government authorities	31,528	7,738
Sundry and prepaid expenses	206,571	11,221
	<u>\$ 394,652</u>	<u>\$ 193,972</u>

NOTE 5:- TRADE PAYABLES

	December 31,	
	2007	2006
Open accounts	\$ 387,434	\$ 115,586
Notes payable	71,683	17,509
	<u>\$ 459,117</u>	<u>\$ 133,095</u>

NOTE 6:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31,	
	2007	2006
Employees and payroll accruals	\$ 320,342	\$ 161,516
Accrued expenses and others	483,317	232,730
Other creditors	41,994	28,403
	<u>\$ 845,653</u>	<u>\$ 422,649</u>

NOTE 7:- SHAREHOLDERS' EQUITY**Composition:**

	December 31,		December 31,	
	2007	2006	2007	2006
	Authorized		Issued and Outstanding	
	Number of shares			
Shares of \$0.0001 par value:				
Common shares	<u>500,000,000</u>	<u>25,000,000</u>	<u>104,093,417</u>	<u>57,405,326</u>
New preferred shares	<u>-</u>	<u>10,000,000</u>	<u>-</u>	<u>-</u>

On August 21, 2007 the Company modified the composition of its authorized share capital by increasing the number of common shares to 500,000,000 and by decreasing the number of preferred shares to nil.

Issuance of shares and warrants to investors

1. In March 2006, the Company issued 2,633,228 Common shares in settlement of due debt.
2. In March 2006, as part of the Recapitalization, warrants to purchase 2,139,106 Common shares at an exercise price per share of \$0.000 with a term of 5 years were issued by the Company to existing holders of Common shares who signed a consent agreement to the Recapitalization with the Company.
3. In March, April and June 2006, the Company issued a total of 16,217,552 Common shares and warrants to purchase 32,434,034 common shares at an exercise price per share of \$0.071 and a term of 5 years in consideration for \$1,149,266. The issuance costs amounted to \$ 197,322.
4. In November and December 2006, the Company issued a total of 16,685,790 Common shares and warrants to purchase 20,857,238 shares at an exercise price of \$0.117 and a term of 5 years in consideration for \$1,949,467. The issuance costs amounted to \$334,721.
5. In January 2007 the Company issued a total of 427,402 Common Shares and warrants to purchase 534,252 Common shares at an exercise price per share of \$0.117 and a term of 5 years, in consideration for \$49,952. The issuance costs amounted to \$16,632.
6. In May, July, and August 2007 the Company issued a total of 7,647,436 Common shares and warrants to purchase 1,634,909 Common shares at an exercise price per share of \$0.164 and a term of 5 years in consideration for \$1,251,252. The issuance costs amounted to \$416,617.

7. In July 2007 451,939 warrants were exercised into 451,939 Common shares, in consideration of \$2.
8. In August 2007 the Company issued a total of 122,232 Common shares at the fair value of \$18,387 to an advisor in consideration for counseling services related to the issuance of shares. The shares were recorded as issuance costs.
9. Based on a resolution approved by shareholders in November 22, 2007 subject to and conditional to admission to the AIM market of the London Stock Exchange, a stock split was effectuated on December 4, 2007 such that each existing Common share was converted to 21.39149 Common shares. In addition all existing warrants and options automatically adjusted so that each warrant or option to purchase common share was converted to a warrant or option to purchase 21.39149 common shares. Data regarding share and per share data in these preliminary results, have been retroactively adjustment to reflect the stock split
10. In December 2007 the Company issued 6,417,447 Common shares in consideration for conversion of a convertible Note of \$1,050,000. The issuance costs amounted to \$349,607.
11. In December 2007 the Company issued a total of 28,537,213 Common shares and warrants to purchase 971,075 Common shares at an exercise price per share of \$0.164, and warrants to purchase 5,799,553 Common shares at an exercise price per share of \$0.194 with a term of 5 years in consideration for \$5,669,075. The issuance costs amounted to \$1,887,563.
12. In December 2007 the Company issued a total of 3,008,033 Common shares at a fair value of \$620,120 to consultants for services related to the issuance of shares. The shares were recorded as issuance costs.
13. In December 2007 the Company issued 76,389 Common shares to one of its investors as compensation for providing the necessary securities for the Company to obtain a Letter of Credit.

NOTE 8:- TAXES ON INCOME

a. Measurement of taxable income under the Income Tax (Inflationary Adjustments) Law, 1985

Results of the subsidiary for tax purposes are measured in terms of earnings in New Israel Shekel (NIS) after certain adjustments for increases in the Israeli CPI. As explained in Note 2b, the financial statements are measured in U.S. Dollars. The difference between the annual change in the Israeli CPI and in the NIS/Dollar exchange rate causes a further difference between taxable income and the income before taxes shown in the financial statements. In accordance with paragraph 9(f) of SFAS 109, the Company has not provided deferred income taxes on the difference between the reporting currency and the tax bases of assets and liabilities.

b. Carryforward tax loss

As of December 31, 2007, the Company had a net operating loss carryforward for federal income tax purposes of approximately \$17.1 million which will begin to expire in the year 2020. Utilization of the Company's net operating loss may be subject to substantial annual limitation due to ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such an annual limitation could result in the expiration of the net operating loss before utilization. As a result of the implementation of FIN 48 (see Note 2g) the company recognized for purpose of deferred tax calculations

carryforward losses in the amount of \$3.3 million. As of December 31, 2007 the Company had net operating loss carryforward for state franchise tax purposes of approximately \$3.3 million which will begin to expire in 2011.

As of December 31, 2007 the subsidiary had a carryforward tax loss for Israeli purposes in the amount of approximately \$3.1 million which can be carried forward indefinitely.

c. Deferred income taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts deductible for income tax purposes. Significant components of the Company and its subsidiary's deferred tax assets are as follows:

	December 31,	
	2007	2006
Operating loss carryforward	\$2,204,528	\$7,147,528
Reserves and allowances	189,908	94,207
Net deferred tax asset before valuation allowance	2,394,436	7,241,735
Valuation allowance	(2,394,436)	(7,241,735)
Net deferred tax asset	<u>\$ -</u>	<u>\$ -</u>

The valuation allowance for deferred income taxes relates primarily to the uncertainty of utilization of the net operating loss carryforwards, which are dependent on the future profitability of the Company.

The decrease in the deferred tax asset due to operating loss carryforward balance from \$7,147,528 in 2006 to \$2,204,528 in 2007 resulted from the application of FIN 48 (see Note 8b).

Management currently believes that since the Company has a history of losses it is more likely than not that the deferred tax regarding the loss carryforwards and other temporary differences will not be realized in the foreseeable future.

- d. Until December 31, 2003, the regular tax rate applicable to income of the subsidiary was 36%. In June 2004, an amendment to the Income Tax Ordinance (No. 140 and Temporary Provision), 2004 was passed by the “Knesset” (Israeli Parliament) and in July 2005, an amendment to the Income Tax Ordinance (No. 147) was passed by the “Knesset”, which determines, among other things, that the corporate tax rate is to be gradually reduced to the following tax rates: 2004 - 35%, 2005 - 34%, 2006 - 31%, 2007 - 29%, 2008 - 27%, 2009 - 26% and 2010 and thereafter - 25%.

- e. The Company files income tax returns in the U.S. federal jurisdiction and state jurisdiction. The U.S. tax authorities have not conducted an examination in respect of the Company’s U.S. federal income tax returns since inception

The Company’s Israeli subsidiary has not yet received final tax assessments since its inception. The subsidiary has tax assessments, deemed final under the law, up to and including the year 2002.

NOTE 9:- SUBSEQUENT EVENTS

- a. In April 2008, the Company issued a total of 142,609 Common shares to an advisor in consideration for assistance with the Company's fund raising endeavour's in relation to the placing of the company shares on December 4, 2007.(see Note 1a).

- b.** In January 2008 a total of 3,560,314 warrants were exercised in a cashless conversion to 2,414,326 common shares. In addition 47,724 warrants were exercised to 47,724 common shares .The cash consideration received upon exercise of the warrants was an immaterial amount..
- c.** In April 2008 a series of agreements were concluded with Hadasit Medical Research and Development Ltd. ("Hadasit") to conduct a clinical trial at Hadassah Medical Center. The Company will pay to Hadasit \$8,400 per month to conduct the trial in addition to an estimated cost of \$9,156 per patient in the trial. The Company will also use the GMP lab facilities at a cost of \$30,000 per month.