



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

HALF-YEARLY REPORT THE SIX-MONTH PERIOD ENDED 30 JUNE 2008

Misgav, Israel and London, UK – 24 September 2008 — Medgenics (AIM: MEDG) announces its half-yearly report for the six-month period ended 30 June 2008.

Highlights for the period

- Appointment of Lord Steinberg as Non-Executive Director 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 sustained-action protein therapy to treat anaemia.
- 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 Company's requirements for use in its Phase I/II clinical trials 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.

Significant Post-period Highlights

- Commencement of Phase I/II safety and efficacy clinical trial with EPODURE following receipt of approval from Israel's Ministry of Health

Financial Summary (in US \$; unaudited)

- Net loss after tax of \$2.97 million for the period (2007: \$1.04 million) as a result primarily of preparations for and initiation of the Phase I/II clinical trial of EPODURE, including the set up costs associated with the new laboratories and the recruitment of additional R&D staff.
- R&D costs for the six-month period of \$1.63 million (2007: \$0.44 million) and general and administrative costs of \$1.39 million (2007: \$0.64 million)
- Cash, cash equivalents and short-term investments at 30 June 2008 of \$1.74 million (at 31 December 2007: \$4.68 million).

Dr. Andrew Pearlman, Chief Executive Officer of Medgenics, said:

“2008 continues to be an exciting year for Medgenics and we have been focused on preparing for the start of our landmark Phase I/II safety and efficacy trial of our EPODURE Biopump for providing sustained treatment of anaemia in patients with chronic kidney disease. We were pleased to receive approval to start this trial at the end of July, and have been fully engaged in the process of recruiting patients since early August. We have now begun the final screening process of the first patients for this trial who were referred from several cooperating nephrology centers in Israel and we continue on track towards publishing our initial data and findings before the end of the year.”

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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, entered 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).

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

Medgenics has made important progress during 2008, preparing for and successfully launching its landmark Phase I/II safety and efficacy trial of EPODURE, its lead protein therapy to treat anemia. We were pleased to receive approval from Israel's Ministry of Health in late July and have begun the trial at the Hadassah University Medical Center in Jerusalem, Israel, where it is being led by Principal Investigator, Dr. Eithan Galun, a veteran of numerous clinical trials. Patient recruitment is ongoing and we remain on track to announce initial data from the trial by the end of the year.

This study will involve up to 30 patients with anaemia as a consequence of chronic kidney disease. The primary aim is to assess the safety and efficacy of EPODURE in three controlled dose ranges, in providing sustained, elevated levels of the deficient protein erythropoietin (EPO) and, thereby, in elevating the red blood cell count and haemoglobin levels for up to 4–6 months in those patients receiving appropriate doses. The first patients are scheduled to receive the lowest dose range of up to 20 Units of EPO per kilogram per day. Once an interim review has confirmed initial safety in at least six patients, higher doses of 40 and 60 Units are planned

EPODURE is based on Medgenics' revolutionary proprietary platform technology for treating certain chronic diseases, whereby a biological "Biopump" is created from patients' own tissue, enabling them to produce their own natural human protein therapy for what we hope will be up to six months or more from a single procedure. We believe this technology has the potential to improve significantly 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.

We have been able to advance our clinical development activities for EPODURE as a result of the £3.28 million (\$6.72 million) fundraising we concluded successfully in December 2007 in conjunction with the Company's admission to AIM.

During the first half of 2008, the Company has incurred a large number of one-off costs including the set-up of new facilities and the design and manufacture of several key elements that were necessary to enable us to commence the Phase I/II clinical trial. We are therefore confident that the funds raised at Admission, together with ongoing Israeli government funding from the Office of the Chief Scientist, as well as the existing letter of credit, are sufficient to enable the Company to continue its current programme of ongoing development and testing of our Biopump platform technology and associated products, focusing on EPODURE with the first set of data expected towards the end of 2008.

Our strategy for commercialization is to develop alliances with major partners and to proceed with further clinical trials leading to eventual FDA, EMEA and/or other regulatory approvals and eventual clinical adoption of EPODURE. Furthermore, in the longer-term, we also plan to pursue similar steps towards commercialization of 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).

Key events during the period

The start of the EPODURE Phase I/II trial and initiation of patient recruitment parallels the Company's achievement of several important milestones in recent months, which have been crucial to facilitating the commencement of the trial:

- We have significantly enhanced the clinical and technical teams that will be driving the trial forward. In particular, we are 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 which was a significant achievement for the Company from a technological standpoint. We have tested this vector and are confident that it can 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 pleased that he joined the Board of Directors and we look forward to the valuable contribution he will make to the Company.

Financial Review of the six-month period to 30 June 2008 (unaudited)

- Net research and development expenses were \$1.63 million (2007: \$0.44 million)
- Group general and administrative expenses were \$1.39 million (2007: \$0.64 million)
- Operating loss was \$3.02 million (2007: \$1.08 million)
- Loss on ordinary activities before taxation for the period was \$2.97 million (2007: \$1.04 million)
- Loss per share was \$0.03 (2007: \$0.02)
- Cash, cash equivalents and short-term investments at the end of the period was \$1.74 million (at 31 December 2007: \$4.68 million)
- Consolidated balance sheet has net assets of \$0.61 million (at 31 December 2007: \$3.33 million)

Outlook

The start of our Phase I/II clinical trial with EPODURE was a major milestone for the Company and is progressing. Positive results of the trial will be crucial to confirm both the safety and efficacy of EPODURE in anaemia patients, and will more broadly provide proof-of-concept of our innovative Biopump technology for the long-term treatment of chronic diseases. If the results are as we hope and expect, they will support our ambitions of raising significant funds to advance EPODURE into further clinical studies, to enhance our strategic partnering activities and to progress the development of additional Biopump-based therapeutic procedures in other disease areas.

All the evidence we have seen on the effectiveness of the Biopump technology in various preclinical studies and our previous clinical study give us confidence that the Phase I/II trial will be successful. We are looking forward to reporting the first preliminary data over the coming months.

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

24 September 2008

CONSOLIDATED BALANCE SHEETS

In US Dollars

	June 30, 2008	December 31, 2007
	Unaudited	Audited
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$1,640,909	\$4,683,914
Short term investments	100,968	-
Other accounts receivable and prepaid expenses	434,545	394,652
<u>Total</u> current assets	----- 2,176,422	----- 5,078,566
SEVERANCE PAY FUND	----- 134,503	----- 92,235
PROPERTY AND EQUIPMENT, NET	----- 443,692	----- 134,240
<u>Total</u> assets	=====	=====

\$2,754,617

\$5,305,041

CONSOLIDATED BALANCE SHEETS**In US Dollars (except for share data)**

	June 30, 2008	December 31, 2007
	Unaudited	Audited
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short – term bank credit	\$ -	\$ 9,714
Trade payables	605,035	459,117
Other accounts payable and accrued expenses	716,957	845,653
<u>Total current liabilities</u>	<u>1,321,992</u>	<u>1,314,484</u>
LONG-TERM LIABILITIES:		
Accrued severance pay	825,373	662,791
<u>Total liabilities</u>	<u>2,147,365</u>	<u>1,977,275</u>
SHAREHOLDERS' EQUITY:		
New Common shares - \$0.0001 par value; 500,000,000 shares authorized at June 30, 2008 and December 31, 2007; 106,698,076 and 104,093,417 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively		
Additional paid-in capital	10,669	10,409
Deficit accumulated during the development stage	28,885,176	28,634,642
	<u>(28,288,593)</u>	<u>(25,317,285)</u>
<u>Total shareholders' equity</u>	<u>607,252</u>	<u>3,327,766</u>
<u>Total liabilities and shareholders' equity</u>	<u>\$2,754,617</u>	<u>\$5,305,041</u>

CONSOLIDATED STATEMENTS OF OPERATIONS**In US Dollars (except for share data)**

	Six months ended June 30,		Year ended	From date
	2008	2007	December 31,	of
	Unaudited	Unaudited	2007	inception
			Audited	(January 27,
				2000)
				through
				June 30,
				2008
				Unaudited
Research and development expenses, net	\$1,632,531	\$443,717	\$1,986,710	\$ 15,021,095
General and administrative expenses	1,388,281	637,660	1,439,054	12,778,140
Loss from disposal of property and equipment	-	-	-	325,842
Operating loss	3,020,812	1,081,377	3,425,764	28,125,077
Financial (income) expenses, net	(51,343)	(42,093)	414,972	532,195
Loss before taxes on income	2,969,469	1,039,284	3,840,736	28,657,272
Taxes on income	1,839	-	10,603	68,518
Net loss for the period	\$2,971,308	\$1,039,284	\$3,851,339	\$ 28,725,790
Basic and diluted net loss per share	\$ 0.03	\$ 0.02	\$ 0.06	
Weighted average number of shares used in per share calculation	106,204,484	58,695,498	64,968,152	

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

In US Dollars (except for share data)

	Common shares		Preferred shares Series A		Preferred shares Series B		Additional Paid-in Capital	Deferred Stock Compensation	Deficit Accumulated During the Development Stage	Total Shareholders' Equity (Deficiency)
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount				
Balance as of January 27, 2000 (inception)	-	\$ -	-	\$ -	-	\$ -	\$ -	\$ -	\$ -	\$ -
Issuance of common shares in January 2000 at par value	2,000,000	2	-	-	-	-	-	-	-	2
Issuance of common shares in March 2000 at par value	69,677	-	-	-	-	-	-	-	-	-
Issuance of common shares in August 2000 at \$1.14 per share, net	437,936	-	-	-	-	-	499,997	-	-	499,997
Issuance of common shares in respect of license agreement in August 2000 at par value	940,950	1	-	-	-	-	-	-	-	1
Net loss	-	-	-	-	-	-	-	-	(681,216)	(681,216)
Balance as of December 31, 2000	3,448,563	3	-	-	-	-	499,997	-	(681,216)	(181,216)
Stock split effected as stock dividend	-	342	-	-	-	-	(342)	-	-	-
Issuance of Preferred shares in January 2001 at \$1.41 per share, net	-	-	138,502	14	-	-	195,122	-	-	195,136
Issuance of Preferred shares in March and June 2001 at \$1.67 per share, net	-	-	4,085,837	408	-	-	6,805,968	-	-	6,806,376
Deferred stock compensation	-	-	-	-	-	-	248,165	(248,165)	-	-
Amortization of deferred stock compensation	-	-	-	-	-	-	-	40,880	-	40,880
Stock based compensation expense related to options to consultants	-	-	-	-	-	-	510,869	-	-	510,869
Net loss	-	-	-	-	-	-	-	-	(3,243,701)	(3,243,701)
Balance as of December 31, 2001	<u>3,448,563</u>	<u>\$345</u>	<u>4,224,339</u>	<u>\$422</u>	<u>-</u>	<u>\$ -</u>	<u>\$8,259,779</u>	<u>\$(207,285)</u>	<u>\$(3,924,917)</u>	<u>\$4,128,344</u>

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

In US Dollars (except for share data)

	Common shares		Preferred shares Series A		Preferred shares Series B		Additional Paid-in Capital	Deferred Stock Compensation	Deficit Accumulated During the Development Stage	Total Shareholders' Equity (Deficiency)
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount				
Balance as of December 31, 2001	3,448,563	\$ 345	4,224,339	\$ 422	-	\$ -	\$ 8,259,779	\$ (207,285)	\$ (3,924,917)	\$ 4,128,344
Issuance of Preferred shares In October 2002 at \$1.97 per share, net	-	-	-	-	2,676,674	268	5,264,352	-	-	5,264,620
Deferred stock compensation	-	-	-	-	-	-	63,855	(63,855)	-	-
Amortization of deferred stock compensation	-	-	-	-	-	-	-	66,937	-	66,937
Stock based compensation expenses related to options to consultants	-	-	-	-	-	-	371,560	-	-	371,560
Net loss	-	-	-	-	-	-	-	-	(5,049,391)	(5,049,391)
Balance as of December 31, 2002	<u>3,448,563</u>	<u>\$ 345</u>	<u>4,224,339</u>	<u>\$ 422</u>	<u>2,676,674</u>	<u>\$ 268</u>	<u>\$13,959,546</u>	<u>\$ (204,203)</u>	<u>\$ (8,974,308)</u>	<u>\$ 4,782,070</u>

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

In US Dollars (except for share data)

	Common shares		Preferred shares Series A		Preferred shares Series B		Additional Paid-in Capital	Deferred Stock Compensatio n	Deficit Accumulated During the Development Stage	Total Shareholders' Equity (Deficiency)
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount				
Balance as of December 31, 2002	3,448,563	\$ 345	4,224,339	\$ 422	2,676,674	\$ 268	\$13,959,546	\$ (204,203)	\$(8,974,308)	\$4,782,070
Exercise of stock options	19,443	2	-	-	-	-	193	-	-	195
Issuance of Preferred shares in April 2003 at \$ 2.00 per share, net	-	-	-	-	216,507	22	432,994	-	-	433,016
Issuance of Preferred shares in May 2003 at \$ 2.00 per share, net	-	-	-	-	850,490	85	1,603,783	-	-	1,603,868
Deferred stock compensation	-	-	-	-	-	-	440,811	(440,811)	-	-
Amortization of deferred stock compensation	-	-	-	-	-	-	-	105,213	-	105,213
Stock based compensation expenses related to options to consultants	-	-	-	-	-	-	475,469	-	-	475,469
Net loss	-	-	-	-	-	-	-	-	(5,038,272)	(5,038,272)
Balance as of December 31, 2003	<u>3,468,006</u>	<u>\$ 347</u>	<u>4,224,339</u>	<u>\$ 422</u>	<u>3,743,671</u>	<u>\$ 375</u>	<u>\$16,912,796</u>	<u>\$ (539,801)</u>	<u>(14,012,580)</u>	<u>\$ 2,361,559</u>

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

In US Dollars (except for share data)

	Common shares		Preferred shares Series A		Preferred shares Series B		Additional Paid-in Capital	Deferred Stock Compensation	Deficit Accumulated During the Development Stage	Total Shareholders' Equity (Deficiency)
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount				
Balance as of December 31, 2003	3,468,006	\$347	4,224,339	\$ 422	3,743,671	\$ 375	\$ 16,912,796	\$ (539,801)	\$(14,012,580)	\$ 2,361,559
Exercise of stock options	12,750	1	-	-	-	-	126	-	-	127
Stock based compensation related to shares to consultants	33,333	3	-	-	-	-	9,997	-	-	10,000
Amortization of deferred stock compensation	-	-	-	-	-	-	-	539,801	-	539,801
Stock based compensation expense related to options to consultants	-	-	-	-	-	-	346,762	-	-	346,762
Net loss	-	-	-	-	-	-	-	-	(4,515,829)	(4,515,829)
Balance as of December 31, 2004	3,514,089	\$351	4,224,339	\$ 422	3,743,671	\$ 375	\$17,269,681	\$ -	\$(18,528,409)	\$(1,257,580)
Net loss	-	-	-	-	-	-	-	-	(776,129)	(776,129)
Balance as of December 31, 2005	3,514,089	\$351	4,224,339	\$ 422	3,743,671	\$ 375	\$17,269,681	\$ -	\$(19,304,538)	\$(2,033,709)

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

In US Dollars (except for share data)

	New Common shares		Common shares		Preferred shares Series A		Preferred shares Series B		Additional Paid-in Capital	Deficit Accumulated During the Development Stage	Total Shareholders' Equity (Deficiency)
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount			
	Balance as of December 31, 2005	-	\$ -	3,514,089	\$ 351	4,224,339	\$ 422	3,743,671			
Conversion of common shares, Series A and Series B Preferred shares into New Common shares	9,885,842	46	(3,514,089)	(351)	(4,224,339)	(422)	(3,743,671)	(375)	(436,095)	437,197	-
Conversion of convertible Note into New Common shares	11,982,914	56	-	-	-	-	-	-	1,795,016	-	1,795,072
Issuance of New Common shares in settlement of due debt in March 2006	2,633,228	12	-	-	-	-	-	-	96,004	-	96,016
Issuance of New Common shares and warrants in March 2006 at \$0.07 per share and warrant, net	14,110,490	66	-	-	-	-	-	-	828,197	-	828,263
Issuance of New Common shares and warrants in April 2006 at \$0.07 per share and warrant, net	513,396	2	-	-	-	-	-	-	30,133	-	30,135
Issuance of New Common shares and warrants in June 2006 at \$0.07 per share and warrant, net	1,593,666	8	-	-	-	-	-	-	93,538	-	93,546
Issuance of New Common shares and warrants in November 2006 at \$0.12 per share and warrant, net	5,391,725	25	-	-	-	-	-	-	521,752	-	521,777
Issuance of New Common shares and warrants in December 2006 at \$0.12 per share and warrant, net	11,294,065	53	-	-	-	-	-	-	1,092,916	-	1,092,969
Stock based compensation expense related to options and warrants granted to consultants and employees	-	-	-	-	-	-	-	-	1,161,287	-	1,161,287
Net loss	-	-	-	-	-	-	-	-	-	(2,598,605)	(2,598,605)
Balance as of December 31, 2006	<u>57,405,326</u>	<u>\$ 268</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$22,452,429</u>	<u>\$(21,465,946)</u>	<u>\$ 986,751</u>

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

In US Dollars (except for share data)

	New Common shares		Additional Paid-in Capital	Deficit Accumulated During the Development Stage	Total Shareholders' Equity
	Number of Shares	Amount			
Balance as of December 31, 2006	57,405,326	\$ 268	\$22,452,429	\$(21,465,946)	\$ 986,751
Issuance of New Common shares and warrants in January 2007 at \$0.12 per share and warrant, net	427,402	2	33,318	-	33,320
Issuance of New Common shares and warrants in May 2007 at \$0.16 per share and warrant, net	5,347,851	25	583,636	-	583,661
Issuance of New Common shares in July 2007 at \$0.13 per share, net	771,612	3	84,211	-	84,214
Exercise of warrants in July 2007	451,939	2	-	-	2
Issuance of New Common shares to consultant in August 2007, net	122,232	1	(1)	-	-
Issuance of New Common shares and warrants in August 2007 at \$0.16 per share and warrant, net	1,527,973	7	166,753	-	166,760
Stock split effected as stock dividend in December 2007	-	6,297	(6,297)	-	-
Conversion of convertible Note into New Common shares and issuance of warrants in December 2007, at \$0.16 per share and warrant, net	6,417,447	642	699,751	-	700,393
Issuance of New Common shares and warrants in December 2007 at \$0.19 - \$0.21 per share and warrant, net	28,537,213	2,853	3,778,659	-	3,781,512
Issuance of New Common shares and warrants to consultants in December 2007, net	3,008,033	301	(301)	-	-
Issuance of New Common shares for arrangement of security for Letter of Credit in December 2007, net	76,389	8	15,740	-	15,748
Issuance cost due to obligation to issue 142,609 New Common shares for consultant, net	-	-	(31,449)	-	(31,449)
Stock based compensation expense related to options granted to consultants and employees	-	-	346,802	-	346,802
Beneficial conversion feature embedded in Convertible Note.	-	-	511,391	-	511,391
Net loss	-	-	-	(3,851,339)	(3,851,339)
Balance as of December 31, 2007	<u>104,093,417</u>	<u>\$ 10,409</u>	<u>\$ 28,634,642</u>	<u>\$(25,317,285)</u>	<u>\$ 3,327,766</u>

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)**In US Dollars (except for share data)**

	<u>New Common shares</u>		<u>Additional Paid-in Capital</u>	<u>Deficit Accumulated During the Development Stage</u>	<u>Total Shareholders' Equity</u>
	<u>Number of Shares</u>	<u>Amount</u>			
Balance as of December 31, 2007	104,093,417	\$ 10,409	\$ 28,634,642	\$(25,317,285)	\$ 3,327,766
Exercise of warrants in January 2007	2,462,050	246	(246)	-	-
Issuance of New Common shares to consultant in April 2008, net	142,609	14	31,435	-	31,449
Stock based compensation expense related to options granted to consultants and employees	-	-	219,345	-	219,345
Net loss	-	-	-	(2,971,308)	(2,971,308)
Balance as of June 30, 2008	<u>106,698,076</u>	<u>\$ 10,669</u>	<u>\$ 28,885,176</u>	<u>\$(28,288,593)</u>	<u>\$ 607,252</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS

In US Dollars

	Six months ended		Year ended	From date
	June 30,		December 31,	of
	2008	2007	2007	inception
	Unaudited	Unaudited	Audited	(January 27,
				2000)
				through
				June 30,
				2008
				Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	\$ (2,971,308)	\$ (1,039,284)	\$ (3,851,339)	\$ (28,725,790)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation	36,912	3,992	14,683	684,379
Exchange differences on long term loan	-	-	-	2,950
Loss from disposal of property and equipment	-	-	-	325,842
Interest on Convertible Note	-	-	-	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	219,345	104,816	346,802	4,194,925
Amortization of beneficial conversion feature of convertible note	-	-	511,391	511,391
Purchase of short-term investment, net	(47,278)	-	-	(47,278)
Gain from short term investment	(53,690)	-	-	(53,690)
Accrued severance pay, net	120,314	(1,455)	270,560	690,870
Increase in trade payables	163,161	85,268	308,779	605,035
Increase in accounts receivable and pre-paid expenses	(39,893)	(410,768)	(200,680)	(434,545)
Increase (decrease) in other accounts payable and accrued expenses	212,494	(140,990)	232,812	812,973
Net cash used in operating activities	(2,359,943)	(1,398,421)	(2,351,244)	(21,169,343)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from disposal of property and equipment	-	-	-	172,829
Purchase of property and equipment	(363,607)	(25,395)	(72,991)	(1,626,742)
Net cash used in investing activities	(363,607)	(25,395)	(72,991)	(1,453,913)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from issuance of shares, net	-	905,262	4,458,605	21,979,631
Repayment of issuance expenses	(309,741)	-	-	(309,741)
Repayment of long-term loan	-	-	-	(73,080)
Proceeds from long term loan	-	-	-	70,130
Proceeds from cash for shares to be issued	-	25,000	-	-
Proceeds from Convertible Note	-	-	1,050,000	2,597,225
Decrease in short-term bank credit	(9,714)	(14,387)	(7,930)	-
Net cash provided by (used in) financing activities	(319,455)	915,875	5,500,675	24,264,165
Increase (decrease) in cash and cash equivalents	(3,043,005)	(507,941)	3,076,440	1,640,909
Balance of cash and cash equivalents at the beginning of the period	4,683,914	1,607,474	1,607,474	-
Balance of cash and cash equivalents at the end of the period	\$1,640,909	\$ 1,099,533	\$4,683,914	1,640,909

CONSOLIDATED STATEMENTS OF CASH FLOWS

In US Dollars

	Six months ended June 30,		Year ended December 31,	From date of inception (January 27, 2000) through June 30,
	2008	2007	2007	2008
	Unaudited		Audited	Unaudited
Supplemental disclosure of cash flow information:				
Cash paid during the period for:				
Interest	\$ (7,145)	\$ -	\$ (15,583)	\$ (45,571)
Taxes	\$ (1,839)	\$ -	\$ (2,101)	\$ (57,982)
Supplemental disclosure of non cash flow information:				
Accrued issuance expenses	\$ -	\$ (75,515)	\$ (309,741)	\$ (460,739)
Issuance of New Common shares upon conversion of a Convertible Note	\$ -	\$ -	\$ 1,050,000	\$ 2,845,072
Issuance of shares in settlement of debt	\$ -	\$ -	\$ -	\$ 96,016
Issuance cost due to obligation to issue New Common shares to consultant	\$ -	\$ -	\$ (31,449)	\$ (31,449)
Issuance of New Common shares to consultant	\$ 31,449	\$ -	\$ -	\$ 31,449
Purchase of property and equipment	\$ -	\$ -	\$ 17,243	\$ 17,243

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 New Common shares were admitted for trading on the London Stock Exchange's Alternative Investment Market (AIM). Concurrently the Company placed 9,640,000 New Common shares at a per share price of GBP 0.10 (\$0.21), issued 18,897,213 New Common shares and 3,084,422 New Common shares to investors and consultants, respectively, and issued additional 6,417,447 New 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 and development activities after having raised additional funds. As reflected in the accompanying financial statements, the Company and its subsidiary incurred a loss for the six months ended June 30, 2008 amounting to \$ 2,971,308 and have an accumulated deficit since inception in the amount of \$ 28,288,593. 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 significant accounting policies applied in the financial statements as of June 30, 2008 are consistent with those applied in the financial statements as of December 31, 2007.

Impact of recently issued Accounting Standards

Emerging Issues Task Force document No. 07-05:

In April 2008, the FASB issued EITF 07-05, "Determining whether an Instrument (or Embedded Feature) is indexed to an Entity's Own Stock", (EITF 07-05). EITF 07-05 provides guidance on determining what types of instruments or embedded features in an instrument held by a reporting entity can be considered indexed to its own stock for the purpose of evaluating the first criteria of the scope exception in paragraph 11 (a) of FAS 133. EITF 07-05 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and early application is not permitted. Management is currently evaluating the effect of the adoption of EITF 07-05 on its financial statements.

NOTE 3:- SHAREHOLDERS' EQUITY

Issuance of shares

- a.** In January 2008, a total of 3,560,314 warrants were exercised in a cashless conversion to 2,414,326 New Common shares. In addition 47,724 warrants were exercised and resulted in the issue of 47,724 New Common shares. The cash consideration received upon exercise of the warrants was an immaterial amount.
- b.** 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 endeavours in relation to the placing of the company shares on December 4, 2007.

NOTE 4:- UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the six months ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.