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

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2008

IN U.S. DOLLARS

Chairman's Review

The Board of Medgenics presents the financial results of the Company and its subsidiary (the "Group") for the 12 months ended 31 December 2008.

Medgenics made important progress during 2008. The year was marked in August by the successful commencement of the Company's EPODURE Biopump Phase I/II Clinical Trial, Medgenics' lead protein therapy to treat anemia, after receipt of approval from Israel's Ministry of Health. Since then, the trial has surpassed expectations. A total of seven patients suffering from chronic renal failure have been treated without material adverse effects, successfully demonstrating that, with a single treatment, EPODURE is safe and effective in providing sustained anemia treatment and, more broadly, the safety and effectiveness of the Group's Biopump platform technology. These results have, in turn, drawn active interest from large pharmaceutical and medical device companies with whom the Company hopes to form multiple strategic alliances for Biopumps producing a range of proteins for various clinical applications.

The results of the initial low dosage trial clearly demonstrate that the EPODURE Biopump is making strong steps forward towards offering a viable alternative to the current approach of administering scores of injections for treating anemia in kidney disease patients.

Operational Review

The majority of activities undertaken during the 12 months under review relate to preparing for and successfully launching the ongoing clinical trial at the Hadassah University Medical Center in Jerusalem, Israel. The trial is being led by Principal Investigator, Dr. Eithan Galun, and will involve up to 30 patients with anemia as a consequence of chronic kidney disease. The primary aim of the trial is to assess the safety and efficacy of EPODURE, in three controlled dose ranges, in providing sustained delivery of the deficient protein erythropoietin (EPO) and, thereby, in elevating the red blood cell count and hemoglobin levels for up to 3–6 months or longer in those patients receiving appropriate doses. The first six patients received the lowest dose range of up to 20 Units of EPO per kilogram per day and the trial is now continuing in the next group of patients who are receiving the medium dose of up to 40 Units of EPO per kilogram per day.

Preliminary data from the trial were announced in November for the initial two subjects receiving the lowest dose; the hemoglobin levels of each of these subjects had risen and remained within the target range of between 10 and 12 grams per deciliter for a month The 10-12 grams per decilitre range is what is recommended for such patients to treat their anemia. Throughout the trial to date no adverse effects have been reported or observed other than minor localised bruising typically associated with skin biopsy and implant.

The elevated hemoglobin levels seen in the first two subjects suggested that immunogenicity issues had not been encountered. Based on those initial results, Medgenics cautiously concluded that the elevated hemoglobin levels and the apparent immune acceptance of the implanted EPODURE Biopumps were positive developments. Those early conclusions have been reinforced as the study has progressed and as the number of subjects participating has increased to seven.

As reported in the Group's Interim Results for the 6 moths ended 30 June 2008, Medgenics has been able to advance its clinical development activities for EPODURE as a result of the $6.72 million fundraising that was concluded in December 2007 in conjunction with the Company's admission to AIM.

During 2008, the Company incurred a large number of one-off costs that were necessary to enable Medgenics to commence the Phase I/II clinical trial. These included the set-up of new facilities and the design and manufacture of several key elements of the Biopump platform technology.

Key Appointments

During the year Medgenics has significantly enhanced the clinical and technical teams that are working on the trial. The appointment of Dr. Ehud Shoshani, former CEO of Quintiles, Israel, as Vice President of Clinical Affairs was particularly important. Dr. Shoshani has 13 years of experience in managing clinical trials. Not only has his experience been highly valuable to Medgenics in the management of the current trial but also in the early development phases of the Group's proposed future clinical programmes for EPODURE and its other pipeline products.

Lord Leonard Steinberg was appointed as a 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 in the London stock market.

Operational Facilities

In March 2008, Medgenics' operations were relocated to a new facility in the Teradion Business Park in Misgav, Israel. This move has brought all the Company's operations into one location and has been an important step in enhancing communication among departments and streamlining management processes.

Commercialisation Strategy

With proof of concept now demonstrated, commercialisation of the Group's proprietary platform technology, through the development of alliances with major partners, further clinical trials eventually to secure FDA, EMEA and/or other regulatory approvals and eventual clinical adoption of EPODURE, is now a key strategic priority for the Company. The Company's active discussions with major potential strategic partners have expanded since the initial announcement in February 2009, with additional companies having expressed interest in one or more therapeutic applications. Further updates on these discussions will be made in due course.

Funding

Since admission to AIM and in tandem with the implementation of the Company's strategy for commencing its Phase I/II clinical trial of EPODURE and seeking out strategic partnering opportunities, the directors have focused on raising further capital for the Company. This capital is required to ensure the Group's ability to: continue to finance its operations; pursue strategic partnering alliances with major corporations; continue its device development program; advance the development of additional products towards clinical trial and commercialisation; and, most importantly, conclude the Phase I/II clinical trial of EPODURE.

Notwithstanding these efforts, the endeavours of the board to raise additional funding through a significant equity raise have been frustrated to date due, in large part, to general market conditions in the UK, the USA and Israel and, more pertinently, to a lack of investor appetite for early-stage "biotech" stocks since the Company's admission to AIM. Management's plans include seeking additional funds to continue the operations of the Company and its subsidiary (see note 1b). The directors believe that the Company may now be able to raise much needed capital through the issue of convertible debentures (the "Debentures") with a basic coupon of 10 per cent per annum. The Debentures will automatically convert into Common Shares and additional warrants will be issued to the Debenture holders upon the Company's consummation of a qualifying transaction, such as certain mergers, acquisitions and public offerings of Company securities.

Therefore, on 11 May 2009, Medgenics announced that it is proposing to commence a private offering (the "Private Offering") of Debentures and warrants to accredited investors to raise up to $5 million (with the option to increase such amount to $7 million in aggregate). The Private Offering is contingent on the Shareholders approval of the resolutions set out in the form of Written Consent of Stockholders, which was sent to Shareholders on 12 May 2009.

Financial Review

The Company has incurred significant expenditure in establishing and carrying out its ongoing clinical trials. As a result, the Company has generated a loss of $4.9 million in the year and has, since inception, incurred losses of $30.6 million in development of the Biopump platform technology. The Company successfully raised $6.72 million at its IPO in December 2007, has raised additional funds since Admission and is still receiving grants from the Israeli Office of the Chief Scientist. However, the Board is fully aware that there is still significant further funding required in order to complete the ongoing trials and, as highlighted above, the Board are constantly looking at ways to raise funds through equity fund raising, grants and/or strategic partnerships.

As a result of the Board's frustrated fund raising efforts and the significant cost of the ongoing trials, as highlighted in Note 1b, the Company faces an urgent need to raise capital to fund its operations and repay its existing creditors and those liabilities arising in the normal course of business. Whilst the Board remains confident that the Company will successfully raise the necessary funding for the Company through the Private Offering and other alternative sources if this proves to be unsuccessful the Board will have to consider other options including a suspension of the ongoing trials and other efforts in order to secure the Company's intellectual property.

Outlook

With the start of the Phase I/II safety and efficacy trial of the Group's EPODURE Biopump 2008 was certainly the most important year in the development of Medgenics technology as a viable alternative to the treatment of anemia in kidney disease patients. The trial is now into its seventh month and the results have so far surpassed all of our expectations.

Subject to the Company being successful in its endeavour to raise much needed capital, I look forward to reporting on the enrolment of additional subjects to the Group's Phase I/II safety and efficacy trial and on further data from that trial as key milestones are achieved in the coming months.

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

22 May 2009

MEDGENICS, INC. AND ITS SUBSIDIARY

(A company in the development stage)

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2008

IN U. S. DOLLARS

INDEX

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REPORT OF INDEPENDENT AUDITORS

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF

MEDGENICS, INC.

(A company in the development stage)

We have audited the accompanying consolidated balance sheets of Medgenics, Inc. (a company in the development stage) ("the Company") and its subsidiary as of December 31, 2008 and 2007, and the related consolidated statements of operations, changes in shareholders' equity (deficiency) and cash flows for the years then ended, and for the period from January 27, 2000 (date of inception) through December 31, 2008. 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. The financial statements for the period from January 27, 2000 (date of inception) through December 31, 2000 were audited by other auditors, whose report dated March 7, 2001, expressed an unqualified opinion on those statements. Our opinion on the statements of operations, shareholders' equity (deficiency), and cash flows for the period from January 27, 2000 (date of inception) through December 31, 2008, in so far as it relates to amounts for prior periods through December 31, 2000, is based solely on the report of other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the 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. We were not engaged to perform an audit of the Company's 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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiary as of December 31, 2008 and 2007, and the consolidated results of their operations, and their cash flows for the years then ended, and for the period from January 27, 2000 (date of inception) through December 31, 2008, in conformity with accounting principles generally accepted in the United States.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As more fully described in Note 1b, the Company is in the development stage, incurred recurring operating losses, negative cash flows from operations, has an accumulated loss since inception of approximately $30.2 million, has working capital deficiency and shareholders' deficiency as of December 31, 2008. The Company needs to raise capital to fund its operations and repay its existing liabilities and those arising in the normal course of business. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters also are described in Note 1b. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

Kost Forer Gabbay & Kasierer

Kost Forer Gabbay & Kasierer
A Member of Ernst & Young Global

Haifa, Israel
May 22, 2009

CONSOLIDATED BALANCE SHEETS

In US Dollars

	Note	December 31, 2008	December 31, 2007
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3	$1,043,338	$4,683,914
Accounts receivable and prepaid expenses	4	121,794	383,148
Total current assets		1,165,132	5,067,062
LONG TERM ASSETS:			
Restricted lease deposit	9e	22,607	-
Prepaid lease payments	9e	22,443	11,504
Severance pay fund		171,048	92,235
Total long term assets		216,098	103,739
PROPERTY AND EQUIPMENT, NET	5	400,214	134,240
Total assets		$1,781,444	$5,305,041

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

CONSOLIDATED BALANCE SHEETS

In US Dollars (except for share data)

	Note	December 31, 2008	December 31, 2007
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)			
CURRENT LIABILITIES:			
Short – term bank credit	6	$ 52,886	$ 9,714
Trade payables	7	889,002	459,117
Other accounts payable and accrued expenses	8	1,068,518	845,653
Total current liabilities		2,010,406	1,314,484
ACCRUED SEVERANCE PAY		818,639	662,791
Total liabilities		2,829,045	1,977,275
COMMITMENTS AND CONTINGENCIES	9		
SHAREHOLDERS' EQUITY (DEFICIENCY):	10		
Common shares - $0.0001 par value; 500,000,000 shares authorized at December 31, 2008 and 2007; 106,728,195 and 104,093,417 shares issued and outstanding at December 31, 2008 and 2007, respectively		10,672	10,409
Additional paid-in capital		28,968,015	28,634,642
Receipts on account of shares		150,000	-
Deficit accumulated during the development stage		(30,176,288)	(25,317,285)
Total shareholders' equity (deficiency)		(1,047,601)	3,327,766
Total liabilities and shareholders' equity (deficiency)		$1,781,444	$5,305,041

May 22, 2009
Date of approval

Andrew Pearlman – President & CEO

Phyllis Bellin – Director of Finance & Administration

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

CONSOLIDATED STATEMENTS OF OPERATIONS

In US Dollars (except for share data)

	Note	Year ended December 31 2008	Year ended December 31 2007	Period from inception (January 27, 2000) through December 31, 2008
Research and development expenses		$3,435,538	$2,552,269	$18,727,363
Less – Participation by the Office of the Chief Scientist	21	(1,336,446)	(565,559)	(3,239,707)
Research and development expenses, net		2,099,092	1,986,710	15,487,656
General and administrative expenses		2,761,008	1,439,054	14,150,867
Loss from disposal of property and equipment		-	-	325,842
Operating loss		4,860,100	3,425,764	29,964,365
Financial (Income) expenses, net		(11,457)	414,972	572,081
Loss before taxes on income		4,848,643	3,840,736	30,536,446
Taxes on income	11	3,615	10,603	70,294
Net loss		$4,852,258	$3,851,339	$30,606,740
Dividend in respect of reduction in exercise price of certain warrants		$ 6,745	$ -	
Net loss attributable to common shareholders		$4,859,003	$3,851,339	
Basic and diluted net loss per share		$ 0.05	$ 0.06	
Weighted average number of shares used in per share calculation		106,447,604	64,968,152	

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

In US Dollars (except for share data)

	Old 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 Old Common shares in January 2000 at par value	2,000,000	2	-	-	-	-	-	-	-	2
Issuance of Old Common shares in March 2000 at par value	69,677	-	-	-	-	-	-	-	-	-
Issuance of Old Common shares in August 2000 at $1.14 per share, net	437,936	-	-	-	-	-	499,997	-	-	499,997
Issuance of Old 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	3,448,563	$345	4,224,339	$422	-	$ -	$8,259,779	$(207,285)	$(3,924,917)	$4,128,344

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

In US Dollars (except for share data)

	Old 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
	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	3,448,563	$ 345	4,224,339	$ 422	2,676,674	$ 268	$13,959,546	$ (204,203)	$(8,974,308)	$ 4,782,070

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

In US Dollars (except for share data)

	Old 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
	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	3,468,006	$ 347	4,224,339	$ 422	3,743,671	$ 375	$16,912,796	$ (539,801)	$(14,012,580)	$ 2,361,559

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

In US Dollars (except for share data)

	Old 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)

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

In US Dollars (except for share data)

	Common shares		Old 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	$ 375	$17,269,681	$(19,304,538)	$ (2,033,709)
Conversion of Old 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 Common shares in settlement of due debt in March 2006	2,633,228	12	-	-	-	-	-	-	96,004	-	96,016
Issuance of 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 Common shares and warrants in April 2006 at $0.07 per share and warrant, net	513,396	2	-	-	-	-	-	-	30,133	-	30,135
Issuance of 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 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 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	57,405,326	$ 268	-	$ -	-	$ -	-	$ -	$22,452,429	$(21,465,946)	$ 986,751

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

In US Dollars (except for share data)

	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 Common shares and warrants in January 2007 at $0.12 per share and warrant, net	427,402	2	33,318	-	33,320
Issuance of 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 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 Common shares to consultant in August 2007, net	122,232	1	(1)	-	-
Issuance of 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)	-	-
Beneficial conversion feature embedded in convertible Note	-	-	511,391	-	511,391
Issuance of Common shares and warrants in December 2007 at $0.16 - $0.21 per share and warrant, net in respect to the placement at admission	38,039,082	3,804	4,493,849	-	4,497,653
Issuance cost due to obligation to issue 142,609 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
Net loss	-	-	-	(3,851,339)	(3,851,339)
Balance as of December 31, 2007	104,093,417	$ 10,409	$ 28,634,642	$(25,317,285)	$ 3,327,766

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

In US Dollars (except for share data)

	Common shares		Additional Paid-in Capital	Receipts on account of shares	Deficit Accumulated During the Development Stage	Total Shareholders' Equity (Deficiency)
	Number of Shares	Amount				
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 2008	2,462,050	246	(246)	-	-	-
Issuance of Common shares to consultant in April 2008	142,609	14	31,435	-	-	31,449
Exercise of warrants in December 2008	30,119	3	(3)	-	-	-
Stock based compensation expense related to options granted to consultants and employees	-	-	295,442	-	-	295,442
Receipts on account of shares in respect to exercise of warrants in January 2009	-	-	-	150,000	-	150,000
Dividend in respect of reduction in exercise price of certain warrants	-	-	6,745	-	(6,745)	-
Net loss	-	-	-	-	(4,852,258)	(4,852,258)
Balance as of December 31, 2008	106,728,195	$10,672	$ 28,968,015	$ 150,000	$(30,176,288)	$ (1,047,601)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
In US Dollars

	Year ended December 31 2008	Year ended December 31 2007	Period from inception (January 27, 2000) through December 31 2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (4,852,258)	$ (3,851,339)	$ (30,606,740)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	96,497	14,683	743,964
Exchange differences on a long term loan	-	-	2,950
Loss from disposal of property and equipment	-	-	325,842
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	295,442	346,802	4,271,023
Interest and amortization of beneficial conversion feature of convertible note	-	511,391	759,197
Accrued severance pay, net	77,035	270,560	647,591
Increase in trade payables	439,036	308,779	880,910
Decrease (Increase) in accounts receivable and pre-paid expenses	261,354	(196,122)	(121,794)
Increase in other accounts payable and accrued expenses	564,055	232,812	1,164,534
Net cash used in operating activities	(3,118,839)	(2,346,686)	(21,916,775)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from disposal of property and equipment	-	-	172,869
Increase in prepaid lease payments	(10,939)	(4,558)	(22,443)
Increase in restricted lease deposit	(22,607)	-	(22,607)
Purchase of property and equipment	(371,622)	(72,991)	(1,634,757)
Net cash used in investing activities	(405,168)	(77,549)	(1,506,938)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of shares, net	(309,741)	4,458,605	21,669,890
Repayment of a long-term loan	-	-	(73,080)
Proceeds from long term loan	-	-	70,130
Receipts on account of shares	150,000	-	150,000
Proceeds from a convertible Note	-	1,050,000	2,597,225
Increase (decrease) in short-term bank credit	43,172	(7,930)	52,886
Net cash provided by (used in) financing activities	(116,569)	5,500,675	24,467,051
Increase (decrease) in cash and cash equivalents	(3,640,576)	3,076,440	1,043,338
Balance of cash and cash equivalents at the beginning of the period	4,683,914	1,607,474	-
Balance of cash and cash equivalents at the end of the period	$1,043,338	$4,683,914	$1,043,338

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
In US Dollars

	Year ended December 31 2008	Year ended December 31 2007	Period from inception (January 27, 2000) through December 31 2008
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Interest	$ 833	$ 15,583	$ 39,259
Taxes	$ 12,420	$ 1,798	$ 70,294
Supplemental disclosure of non cash flow information:			
Accrued issuance expenses	$ -	$ 309,741	$ 309,741
Issuance of 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 Common shares to consultant	$ (31,449)	$ 31,449	$ -
Purchase of property and equipment	$ 8,092	$ 17,243	$ 8,092

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

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 for trading on the London Stock Exchange's Alternative Investment Market (AIM),(see note 10d (21)).

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 incurred a loss during the year ended December 31, 2008 of $ 4,852,258, has an accumulated deficit since inception in the amount of $ 30,176,288, has working capital deficiency and shareholders' deficiency of $ 1,047,601 as of December 31, 2008. The Company and its subsidiary have not yet generated revenues and have negative cash flows from operations in the amount of $ 21,916,775 since inception. The Company requires additional financing in order to continue to fund its current operations and pay existing and future liabilities.

Management's plans include seeking additional funds to continue the operations of the Company and its subsidiary (see note 12c). 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 and to pay its liabilities. In the absence of any alternative finance being arranged and made available within a short period of time, it is unlikely that the company will be able to meet its financial obligations or to continue its operations and may, therefore, require it to significantly curtail or cease business operations and to use remaining funds to maintain intellectual property, while additional sources of funding are sought. These conditions raise substantial doubt about the Company's ability to continue as a going concern. 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 consolidated financial statements are prepared in accordance with United States Generally Accepted Accounting Principles ("U.S. GAAP").

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

b. Financial statements in Dollars

The majority of the Company and its 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 company and subsidiary operates. Thus, the functional and reporting currency of the Company and its 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 statements

The consolidated financial statements include 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. Property and equipment

Property and equipment are stated at cost net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

The annual rates of depreciation are as follows:

	%	
Furniture and office equipment	6 - 15	(mainly 15)
Computers and peripheral equipment	33	
Laboratory equipment	15 - 33	(mainly 15)
Leasehold improvements	The shorter of term of the lease or the useful life of the asset	

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

f. **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 asset. 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, 2008, no impairment losses have been identified.

g. **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, several 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 expenses for the years ended December 31, 2008 and 2007 and for the period from inception (March 27, 2000) through December 31, 2008, amounted to $155,848, $333,282 and $1,229,523, respectively.

h. **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. As of December 31, 2008 a full valuation allowance was provided by the company.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

h. Income taxes (cont.)

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 $14.5 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 Company's financial position or results of operations since the Company has a full valuation allowance for its deferred taxes.

i. 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, 2008 and 2007 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 US Dollars

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

i. Stock based compensation (cont.)

In 2008 and 2007, the Company estimated the fair value of stock options granted to employees and directors using the Binomial option pricing model with the following assumptions:

	2008	2007
Dividend yield	0%	0%
Expected volatility	74%	61%
Risk-free interest rate	1.5%-5.4%	3.5%-4.6%
Forfeiture rates	8.2%-10.5%	6.2%-10.5%
Suboptimal exercise factor	2.2-2.4	2.5-2.7
Contractual life (in years)	5	5

Expected volatilities are based on historical volatilities of the company and 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. The fair value of these options was estimated at the measurement date at December 31, 2008 and December 31, 2007, respectively, using the Binomial option pricing model with the following assumptions:

	2008	2007
Dividend yield	0%	0%
Expected volatility	74%	63%
Risk-free interest rate	1.2%-2.3%	3.3%-3.5%
Expected life (in years)	2.3-4.8	3.3-4.9

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

j. 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 to be outstanding during each year, in accordance with Statement of Financial Standards No. 128, "Earnings Per Share" ("SFAS 128").

In 2007 and 2008, all outstanding stock options and warrants have been excluded from the calculation of the diluted net loss per Common share because all such securities were anti-dilutive for the periods presented.

k. Research and development expenses

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

l. 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 expenses.

m. Concentrations of credit risks

Financial instruments that potentially subject the Company and its subsidiary to concentrations of credit risk consist principally of cash and cash equivalents.
Cash and cash equivalents are invested in major banks in Israel, the United Kingdom and the United States. Such deposits in the United States may be in excess of insured limits and are not insured in other jurisdictions. Management believes that the financial institutions that hold the Company's and its subsidiary's investments are institution with high credit standing and accordingly, minimal credit risk exists with respect to these investments.

The Company has no off-balance-sheet concentrations of credit risk such as foreign exchange contracts, option contracts or other foreign hedging arrangements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

n. Fair value of financial instruments

The carrying values of cash and cash equivalents, accounts receivable, short term bank credit, trade payables and other accounts payable approximate their fair value due to the short-term maturity of these instruments.

o. Impact of recently issued Accounting Standards

1. In December 2007, the EITF issued EITF Issue No. 07-1, Accounting for Collaborative Arrangements Related to the Development and Commercialization of Intellectual Property. Companies may enter into arrangements with other companies to jointly develop, manufacture, distribute, and market a product. Often the activities associated with these arrangements are conducted by the collaborators without the creation of a separate legal entity (that is, the arrangement is operated as a "virtual joint venture"). The arrangements generally provide that the collaborators will share, based on contractually defined calculations, the profits or losses from the associated activities. Periodically, the collaborators share financial information related to product revenues generated (if any) and costs incurred that may trigger a sharing payment for the combined profits or losses. The consensus requires collaborators in such an arrangement to present the result of activities for which they act as the principal on a gross basis and report any payments received from (made to) other collaborators based on other applicable GAAP or, in the absence of other applicable GAAP, based on analogy to authoritative accounting literature or a reasonable, rational, and consistently applied accounting policy election. EITF Issue No. 07-1 is effective for collaborative arrangements in place at the beginning of the annual period beginning after December 15, 2008. The Company is currently evaluating the impact that this pronouncement may have on its consolidated financial statements.

2. In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141R"). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non controlling interest in the acquire and the goodwill acquired. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141R is effective for fiscal years beginning after December 15, 2008. Earlier adoption is prohibited. The Company does not expect the adoption of SFAS 141R will have a material impact on its consolidated financial statements.

3. In December 2007, the FASB issued SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements, and an amendment of ARB No. 51". SFAS No. 160 establishes accounting and reporting standards that require that the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent's equity; the amount of consolidated net income attributable to the parent and to the non-controlling interest be clearly identified and presented on the face of the consolidated statement of income; and changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently. SFAS No. 160 is

In US Dollars

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

p. Impact of recently issued Accounting Standards (cont.)

effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company does not expect the adoption of SFAS No. 160 will have a material impact on its consolidated financial statements

4. 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:- CASH AND CASH EQUIVALENTS

	December 31,	
	2008	2007
In Dollars	$258,756	$1,282,058
In GBP	-	3,382,009
In NIS	784,582	19,847
	$1,043,338	$4,683,914

NOTE 4:- ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31,	
	2008	2007
Grant receivable	$74,568	$156,553
Government authorities	30,692	31,528
prepaid expenses	14,798	129,438
Other	1,736	65,629
	$ 121,794	$ 383,148

NOTE 5:- PROPERTY AND EQUIPMENT,NET

Composition of property and equipment is as follows:

	December 31, 2008	December 31, 2007
Cost:		
Furniture and office equipment	$95,452	$18,682
Computers and peripheral equipment	42,505	18,984
Laboratory equipment	213,618	100,738
Leasehold improvements	169,589	20,289
Total cost	521,164	158,693
Accumulated depreciation:		
Furniture and office equipment	11,429	3,632
Computers and peripheral equipment	16,596	5,185
Laboratory equipment	45,189	15,636
Leasehold improvements	47,736	-
Total accumulated depreciation	120,950	24,453
Depreciated cost	$ 400,214	$ 134,240

Depreciation expense for the years ended December 31, 2008 and 2007 and for the period from inception (January 27, 2000) through December 31, 2008 amounted to $96,497, $14,683 and $743,964, respectively.

NOTE 6:- SHORT – TERM BANK CREDIT

	December 31, 2008	December 31, 2007
Bank credit - denominated in NIS	$52,886	$9,714

NOTE 7:- TRADE PAYABLES

	December 31, 2008	December 31, 2007
Open accounts	$ 830,258	$ 387,434
Notes payable	58,744	71,683
	$ 889,002	$ 459,117

NOTE 8:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31, 2008	December 31, 2007
Employees and payroll accruals	$ 641,916	$ 320,342
Accrued expenses and others	353,842	483,317
Other creditors	72,760	41,994
	$1,068,518	$ 845,653

In US Dollars

NOTE 9:- COMMITMENTS AND CONTINGENCIES

a. License agreements

1. On November 23, 2005 the Company signed a new agreement with Yissum Research and Development Company of the Hebrew University of Jerusalem ("Yissum"). According to the agreement, Yissum granted the Company a license of certain patents for commercial development, production, sub-license and marketing of products to be based on its know-how and research results. In consideration, the Company agreed to pay Yissum the following amounts:

   (a) Three fixed installments measured by reference to investment made in the Company, as follows

I. 1st installment -	\$50,000 shall be paid when the cumulative investments in the Company by any third party or parties, from May 23, 2005, amount to at least \$3,000,000.
II. 2nd installment -	\$150,000 shall be paid when the cumulative investments in the Company by any third party or parties, from May 23, 2005, amount to at least \$12,000,000.
III. 3rd installment -	\$200,000 shall be paid when the cumulative investments in the Company by any third party or parties, from May 23, 2005, amount to at least \$18,000,000.

   The 1st installment of \$50,000 to Yissum was paid on June 5, 2007. As of December 31, 2008 the Company had not reached the cumulative investment that would require the 2rd or 3rd installments to be paid.

   (b) Royalties at a rate of 5% of net sales of the product.

   (c) Sub-license fees at a rate of 9% of sublicense considerations.

   The total aggregate payment of royalties and Sub-license fees by the Company to Yissum shall not exceed \$10,000,000.

2. Pursuant to an agreement dated January 25, 2007 between Baylor College of Medicine ("Baylor") and the Company, Baylor granted the Company a non exclusive worldwide license of a certain technology ("the Subject Technology"). This agreement modifies collaboration agreements entered into on January 25, 2006 and April 6, 2006.
   The license gives the Company an exclusive right to use, market, sell, lease and import the Subject Technology by way of any product process or service that incorporates, utilizes or is made with the use of the Subject Technology.

   The Company has agreed to pay Baylor:
   i a one time, non-refundable license fee of \$25,000;
   ii an annual non-refundable maintenance fee of \$20,000;
   iii a one time milestone payment of \$75,000 upon FDA clearance or equivalent of clearance for therapeutic use;
   iiii an instalment of \$25,000 upon executing any sub licenses that the Company executes in respect of the Subject Technology.

   The license agreement shall expire (unless terminated earlier for default or by the Company at its discretion) on the first day following the tenth anniversary of the first commercial sale of licensed products by the Company, following which the Company shall have a perpetual, royalty free license to the Subject Technology.

NOTE 9:- COMMITMENTS AND CONTINGENCIES (CONT.)

b. Letter of credit

Under the terms of an irrevocable Letter of Credit issued on 26 November, 2007 an amount of up to $500,000 is available (subject to certain conditions) for drawdown at any time during an 18-month period expiring on 25 May 2009 in whole or in any part. The Letter of Credit facility has been extended by the Canadian Imperial Bank of Commerce and has been procured by CIBC Trust Company (Bahamas) Limited (the "Trust"), one of the Company's shareholders, for the benefit of the Company. One of the beneficiaries of the Trust is a director of the Company.
In consideration for the Trust (here and after) arranging the issue of the Letter of Credit, the Company paid as follows: (i) $12,500 in cash (ii) issuance of 76,389 Common shares with a market value of $15,748. When the Letter of Credit remains outstanding at the 12 month anniversary of the date of issue, the Company will pay to the Trust an additional fee of $6,000.

If the Company draws down against the Letter of Credit, a loan shall be constituted between the Company and the Trust which shall bear interest at a rate of 11% per annum. Such loan shall be due for repayment on May 28, 2009 but may be repaid early without penalty. If the Company does not repay such loan by May 28, 2009, default interest of 15% per annum will be charged from that day to the time of full payment. If the loan is in default, the Trust will have the right to convert all or a proportion of the loan, including the accumulated interest, into Common shares, according to the terms and conditions of the Letter of Credit. As of December 31, 2008 the Company had not drawn down any amounts under the Letter of Credit.

c. Chief Scientist

Under agreements with the Office of the Chief Scientist in Israel regarding research and development projects, the subsidiary is committed to pay royalties to the Office of the Chief Scientist at rates between 3.5% and 5% of the sales of products resulting from this research and development, at an amount not to exceed the amount of the grants received by the subsidiary as participation in the research and development program, plus interest at LIBOR. The obligation to pay these royalties is contingent on actual sales of the products and in the absence of such sales no payment is required. As of December 31, 2008 the aggregate contingent liability amounted to approximately $2.7 million.

d. Clinical trials

On July 30, 2008 the company received approval from the Israel Ministry of Health to conduct a Phase I/II safety and efficacy trial of the EPODURE Biopump for providing sustained treatment of anemia in patients with chronic kidney disease. The company has agreements with physicians, consultants and Hadasit Medical Research and Development Ltd. ("Hadasit") to operate the trial. The major agreements were concluded in April 2008, with Hadasit to conduct the clinical trial at Hadassah Medical Center. The Company pays Hadasit about $8,400 per month to conduct the trial in addition to an estimated cost of $9,156 per patient in the trial. The Company also uses the lab facilities at a cost of about $30,000 per month.

In US Dollars

NOTE 9:- COMMITMENTS AND CONTINGENCIES (CONT.)

e. Lease Agreement

1. The facilities of the subsidiary are rented under operating leases for a three year period ending December 2010. Future minimum lease commitments under non-cancelable operating leases for future years, are as follows:

Year	U.S.$
2009	54,108
2010	54,108
	$108,216

The subsidiary pledged a bank deposit which is used as a bank guarantee at an amount of approximately $22,607 to secure its payments under the lease agreement.

2. The subsidiary leases vehicles under standard commercial operating leases. Future minimum lease commitments under various non-cancelable operating lease agreements in respect of motor vehicles are as follows:

Year	U.S.$
2009	65,918
2010	53,480
2011	28,951
2012	3,402
	$151,751

The subsidiary paid the last three months lease installments in advance which amounted to approximately $ 22,443.

NOTE 10:- SHAREHOLDERS' EQUITY

a. Composition:

	December 31,		December 31,	
	2008	2007	2008	2007
	Authorized		Issued and Outstanding	
	Number of shares			
Shares of $0.0001 par value:				
Common shares	500,000,000	500,000,000	106,728,195	104,093,417

On August 21, 2007 the Company modified the composition of its authorized share capital to 500,000,000 Common shares and decreased the number of New preferred shares to nil.

NOTE 10:- SHAREHOLDERS' EQUITY (CONT.)

b. **Common shares**

The Common shares confer upon the holders the right to receive notice to participate and vote in general meetings of the Company and the right to receive dividends, if declared.

c. **Recapitalization of equity capital**

According to a recapitalization agreement signed on March 30, 2006 with the requisite number of the Company's shareholders and Note providers the convertible note and the outstanding Old Common shares, Series A Preferred shares and Series B Preferred shares were converted into Common shares. The conversion rates were as follows:

1. A total of 11,982,914 Common shares were issued to the holders of the convertible Note upon conversion of the Note.
2. One Common share was issued for 10,578.95 Old Common shares.
3. One Common share was issued for 404.51 Series A Preferred shares.
4. One Common share was issued for 345.69 Series B Preferred shares.

As a result of the Recapitalization of the equity capital the Company cancelled the old Common shares, Series A Preferred shares and Series B Preferred shares and issued a total of 9,885,842 Common shares. In addition, the Company issued 11,982,914 Common shares in consideration for the conversion of a convertible Note.

Pursuant to EITF D – 42: "The Effect on the calculation of earnings per share for redemption or induced conversion of preferred stock", The Company added the excess of the fair value of the Common shares that would have been issued pursuant to the original conversion terms of the Preferred shares over the fair value of the Common shares issued to the holders of the Preferred shares in the recapitalization in the amount of $437,197 to deficit accumulated during the development stage with a corresponding reduction in share capital and additional paid in capital.

NOTE 10:- SHAREHOLDERS' EQUITY (CONT.)

d. Issuance of shares and warrants to investors

1. In January and March, 2000 the Company issued a total of 2,069,677 Old Common shares at par value.
2. In August 2000 the Company issued 437,936 Old Common shares in consideration of $ 499,997.
3. In August 2000 in respect of the earlier license agreement with Yissum, the Company issued 940,950 Old Common shares at par value.
4. In January 2001, the Company issued 138,502 Preferred Series A shares in consideration of $200,000. The issuance costs amounted to $4,864.
5. On March 19, 2001, the Board of Directors authorized a 10 to 1 stock split and 1000 to 1 stock split effected as stock dividend. As a result, 3,445,113 additional shares were issued and the par value of each share was reduced from $0.001 to $0.0001.
6. In March and June 2001, the Company issued a total of 4,085,837 Preferred Series A shares in consideration of $6,998,355. The issuance costs amounted to $191,979.
7. In October 2002, the Company issued a total of 2,676,674 Preferred Series B shares in consideration of $5,353,348. The issuance costs amounted to $88,728.
8. In February, September and November 2003, the Company issued a total of 19,443 Old Common shares in consideration of $ 195, upon exercise of stock options.
9. In April and May 2003, the Company issued a total of 1,066,997 Preference Series B shares in consideration of $ 2,133,996. The issuance costs amounted to $ 97,112.
10. In January and February 2004, the Company issued a total of 46,083 Old Common shares in consideration of $127 in cash upon exercise of stock options and $10,000 in consideration for services.
11. In March 2006, the Company issued 2,633,228 Common shares in settlement of due debt.
12. 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 Old Common shares.
13. In March, April and June 2006, the Company issued a total of 16,217,552 Common shares and warrants to purchase 32,435,103 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.
14. In November and December 2006, the Company issued a total of 16,685,790 Common shares and warrants to purchase 20,857,259 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.
15. 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.
16. 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.

NOTE 10:- SHAREHOLDERS' EQUITY (CONT.)

d. Issuance of shares and warrants to investors (cont.)

17. In July 2007 451,939 warrants were exercised into 451,939 Common shares, in consideration of $2.

18. 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 consulting services related to the issuance of shares. The shares were recorded as issuance costs.

19. Based on a resolution approved by shareholders in November 22, 2007 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 financial statements, has been retroactively adjusted to reflect this stock split.

20. On August 13, 2007 the Company received US $1.05 million convertible unsecured promissory note ("Note"). In addition the Company issued to the Note holder warrants for the purchase of up to 3,208,724 Common shares. The warrants have a contractual term of 5 years. The exercise price of the warrants is $0.164 per common share. In respect of the Note and warrants, the Company recorded financial expenses relating to the beneficial conversion feature in accordance with the provisions of EITF 98-05 and EITF 00-27 in the amount of $469,500 with a corresponding credit to additional paid in capital in shareholders' equity. The Company computed the value of the warrants using the Black & Scholes option pricing model with the following assumptions: a risk-free interest rate of 4.72%, zero dividends, volatility of 66%, and an expected term of 5 years. On November 14, 2007 the Note term was extended to December 15, 2007. In respect of this change, the Company recorded additional financial costs of $41,891 in the statement of operations with a corresponding credit to additional paid-in capital in shareholders' equity. On December 4, 2007 the Note was converted to Common shares.

21. On December 4, 2007 the Company's Common shares were admitted for trading on the London Stock Exchange's Alternative Investment Market (AIM). 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 (see note 10d (20)), for a total gross consideration of GBP 3,276,985 ($6,719,075).The issuance costs amounted to $2,221,422.In addition the Company issued warrants to purchase 971,075 Common shares at an exercise price per share of $0.164, and additional warrants to purchase 5,799,553 Common shares at an exercise price per share of $0.194 with a term of 5 years.

22. In January 2008, a total of 3,560,314 warrants were exercised in a cashless conversion to 2,414,326 Common shares by consultants of the Company. In addition 47,724 warrants were exercised and resulted in the issue of 47,724 Common shares. The cash consideration received upon exercise of this warrants was an immaterial amount.

23. 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 in relation to the placing of the company shares on December 4, 2007.

NOTE 10:- SHAREHOLDERS' EQUITY (CONT.)

d. Issuance of shares and warrants to investors (cont.)

24. In December 2008, 30,119 warrants were exercised and resulted in the issue of 30,119 Common shares. The cash consideration received upon exercise of the warrants was immaterial.

25. On December 17, 2008 the company announced that it is implementing a warrant repricing program ("program") to encourage the exercise of existing warrants provided that such exercise is completed by January 30, 2009 (During February 2009, the company extended the date to February 13, 2009). To encourage existing warrant holders to exercise their warrants for cash before the closing date as aforesaid, the following terms were offered:

    1. Reduced Exercise Price: $0.0375/share (2.5 pence/share) or the current exercise price, whichever is lower;
    2. Bonus Warrants: for every one dollar ($1.00) or 0.667 GBP paid for exercise of warrants during this program, a new bonus warrant will be issued to purchase three Shares of common stock in the Company of $0.0001 par value per share ('Common Shares'), which will be immediately exercisable for three years at an exercise price, $0.25 per share.
    The exercise price of any warrants that were not exercised before the closing date revert to the original price as stated in the warrant prior to this incentive program.

    Pursuant to the warrant repricing program mentioned above, 11,025,833 warrants were exercised after balance sheet date for a total of investment $ 406,048 and 1,218,144 bonus warrants were issued. $ 150,000 of the total investment was received during December 2008 and was classified in the financial statements as receipts on account of shares. The benefit of $ 6,745 to the warrant holders from the aforementioned, reduction in the exercise price was recorded as a preferred dividend to the warrant holders that accept the offer during 2008.

e. Stock options

1. On March 30, 2006, the Company adopted a stock option plan according to which up to 21,327,380 options to purchase 21,327,380 Common shares of the Company may be granted to directors, employees and consultants of the Company and its subsidiary, as determined by the Company's Board of Directors from time to time. The options are exercisable within a period of 5 years from the date of grant at an exercise price as a determined by the company's Boards of Directors. The options to employees, directors and consultants will vest over a period of three or four years from the date of grant. Any option which is canceled or forfeited before expiration becomes available for future grants.

2. During 2006 1,080,784 options have been issued outside the plan mentioned above to a consultant at an exercise price of $ 0.071 per share. The options are exercisable within a period of 5 years from the date of grant. The options will vest over period of four years.

3. During 2006 the Company granted to directors, employees and consultants of the Company and its subsidiary fully vested warrants to purchase 61,551,985 Common shares. The warrants are exercisable within a period of 4 or 5 years, at an exercise price of $ 0.000 and $ 0.071 per share. In addition the holders of the warrants (excluding holder of 4,278,298 warrants) shall have the right to cashless exercise of the warrant into Common shares at any time during the exercise period.

In US Dollars

NOTE 10:- SHAREHOLDERS' EQUITY (CONT.)

e. Stock options (cont.)

4. On August 23, 2007 the shareholders approved an amendment to the stock option plan increasing the share reserve under the Plan by 27,167,192 shares of Common shares to a total of 48,494,572 shares of Common shares. During 2007, 1,497,404 options exercisable at $0.120 per share and 15,793,944 options at $0.210 per share were issued to directors, employees and consultants of the Company.

5. During 2007 the Company granted to consultants of the Company fully vested warrants to purchase 1,046,942 Common shares at an exercise price of $0.164 and fully vested warrants to purchase 763,846, 458,308, 96,262, 192,523 and 594,175 Common shares at an exercise price of $0.194, $0.190, $0.164, $0.160 and $0.21, respectively. The warrants are exercisable for a period of 5 years.

6. During 2008 1,711,319 options exercisable at $0.042 per share, 3,188,370 options exercisable at $0.146 per share and 677,397 options exercisable at $0.146 per share were issued to a director, employees and consultant, respectively, of the Company.

7. During 2008 the Company granted to consultant of the Company fully vested warrants to purchase 2,353,064 Common shares at an exercise price of $0.194. The warrants are exercisable for a period of 5 years.

8. As of December 31, 2008, there were 7,422,815 options available for future grants.

9. Summary of the Company's stock option and warrant activity to employees and directors, and related information:

	Year ended December 31, 2008		Year ended December 31, 2007	
Changes during the year:	**Number of options and warrants**	**Weighted average exercise price**	**Number of Options and warrants**	**Weighted average exercise price**
Outstanding at the beginning of The year	81,595,487	$ 0.08	67,578,006	$ 0.06
Changes during the year:				
Granted	4,899,689	0.11	14,017,481	0.20
Forfeited	(641,745)	0.21	-	-
Outstanding at the end of the year	85,853,431	0.08	81,595,487	0.08
Exercisable warrants and options	64,111,905	$ 0.06	54,882,921	$ 0.05

The weighted-average grant-date fair value of options granted to employees and directors during the year ended December 31, 2008 and 2007 was $0.03 and $0.10, respectively.

As of December 31, 2008, there was $846,325 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted to employees. That cost is expected to be recognized over a weighted-average period of 1.8 years.

In US Dollars

NOTE 10:- SHAREHOLDERS' EQUITY (CONT.)

e. **Stock options (cont.)**

10. The Company's outstanding options under the Company's stock option plan and warrants to employees as of December 31, 2008 have been separated into ranges of exercise prices as follows:

Issuance date	Options and warrants outstanding	Exercise price	Aggregate intrinsic value	Options and warrants exercisable	Exercisable Aggregate Intuiusic Value	Weighed average remainin; contractu: term
March 2006	14,480,755	$ 0.000	$784,857	14,480,755	$784,857	2.25
March 2006	46,478,723	$ 0.071	-	41,680,041	-	2.25
April 2006	1,599,549	$ 0.071	-	1,066,366	-	2.28
May 2006	3,419,430	$ 0.071	-	1,709,715	-	2.36
September 2006	1,599,549	$ 0.071	-	1,066,366	-	2.72
August 2007	1,497,404	$ 0.120	-	374,351	-	3.64
November 2007	11,878,332	$ 0.210	-	3,734,311	-	3.87
June 2008	3,188,370	$ 0.146	-	-	-	4.45
December 2008	1,711,319	$ 0.042	$21,905	-	-	4.92
Total	85,853,431		$806,762	64,111,905	$784,857	

* Calculation of aggregate intrinsic value is based on the share price of the company's Common shares as of December 31, 2008 ($0.0547 / 0.0375 GBP, per share).

11. Compensation expense related to options and warrants granted to employees was recorded, in the statement of operations in the following line items:

	Year ended December 31, 2008	Year ended December 31, 2007
Research and development expenses	$ 98,072	$ 46,484
General and administrative expenses	343,916	125,611
	$ 441,988	$ 172,095

In US Dollars

NOTE 10:- SHAREHOLDERS' EQUITY (CONT.)

e. **Stock options (cont.)**

12. A summary of the Company's stock option activity for options and warrants granted to non-employees under the plans is as follows:

	Year ended December 31, 2008		Year ended December 31, 2007	
Changes during the year:	**Number of options and warrants**	**Weighted average exercise price**	**Number of Options and warrants**	**Weighted average exercise price**
Outstanding at the beginning of The year	22,808,058	$ 0.12	16,382,139	$ 0.07
Granted	3,030,461	0.14	6,425,919	0.20
Exercised	(3,560,316)	0.06	-	-
Forfeited	(2,482,312)	0.15	-	-
Outstanding at the end of the year	19,795,891	0.13	22,808,058	0.12
Exercisable option and warrants	16,463,168	$ 0.11	16,258,978	$ 0.08

The weighted-average grant-date fair value of options and warrants granted to non-employees during the year ended December 31, 2008 and 2007 was $0.01 and 0.12, respectively. As of December 31, 2008, there was $22,900 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted to non-employees under the Company's stock option plans. That cost is expected to be recognized over a weighted-average period of 1.6 years.

In US Dollars

NOTE 10:- SHAREHOLDERS' EQUITY (CONT.)

e. Stock options (cont.)

13. The Company's outstanding options under the Company stock option plan and warrants to non-employees as of December 31, 2008 are as follows:

Issuance date	Options and warrants outstanding	Exercise price per share	Aggregate intrinsic value	Options and warrants exercisable	Exercisable Aggregate Intuiusic Value	Weighed average remainin; contractu l term
March 2006	1,200,063	$0.000	$65,043	1,200,063	$65,043	1.25
March 2006	5,478,360	$0.071	-	5,478,360	-	1.76
April 2006	640,141	$0.071	-	586,662	-	2.26
May 2006	2,132,732	$0.071	-	1,066,366	-	2.36
June 2006	1,283,490	$0.071	-	855,660	-	2.50
October 2006	1,040,395	$0.117	-	1,040,395	-	2.81
August 2007	1,024,010	$0.164	-	1,024,010	-	3.62
November 2007	1,861,125	$0.210	-	527,675	-	3.87
December 2007	763,846	$0.194	-	763,846	-	3.93
December 2007	458,308	$0.190	-	458,308	-	3.93
December 2007	96,262	$0.164	-	96,262	-	3.93
December 2007	192,523	$0.160	-	192,523	-	3.93
December 2007	594,175	$0.210	-	594,175	-	3.93
October 2008	677,397	$0.146	-	225,799	-	4.79
December 2008	2,353,064	$0.194	-	2,353,064	-	4.92
Total	19,795,891		$65,043	16,463,168	$65,043	

* Calculation of aggregate intrinsic value is based on the share price of the company's Common shares as of December 31, 2008 ($0.0547 / 0.0375 GBP, per share).

14. Compensation expense related to options and warrants granted to non-employees was recorded in the statement of operations in the following line items:

	Year ended December 31, 2008	Year ended December 31, 2007
Research and development expenses (income)	$ (113,004)	$ 64,694
General and administrative expenses (income)	(33,542)	110,013
	$ (146,546)	$ 174,707

NOTE 11:- 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, 2008, the Company had a net operating loss carryforward for federal income tax purposes of approximately $19.7 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 2h) the Company recognized for purposes of deferred tax calculations carryforward losses in the amount of $5.2 million. As of December 31, 2008 the Company had net operating loss carryforward for state franchise tax purposes of approximately $5.2 million which will begin to expire in 2011.
As of December 31, 2008 the subsidiary had a carryforward tax loss for Israeli purposes in the amount of approximately $5 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,	
	2008	**2007**
Operating loss carryforward	$3,476,589	$2,204,528
Reserves and allowances	262,191	189,908
Net deferred tax asset before valuation allowance	3,738,780	2,394,436
Valuation allowance	(3,738,780)	(2,394,436)
Net deferred tax asset	$ -	$ -

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.

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.

NOTE 11:- TAXES ON INCOME (CONT.)

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 2003.

NOTE 12:- SUBSEQUENT EVENTS

a. In January and February 2009 as part of the warrant repricing program (see note 10d (25)) 11,025,833 warrants were exercised for a total investment of $ 406,048 and 1,218,144 bonus warrants were issued.

b. During 2009 the subsidiary received approval for an additional Research and Development program from the Office of the Chief Scientist in Israel for the period April 2009 through March 2010. The grant is for up to approximately $1.2 million.

c. The company is proposing to raise up to $5 million with the option to increase such amount to up to US $7 million in aggregate through the issue of convertible debentures in a private placement and has signed agreements with a few placement agents. The company is obligated to pay a cash fee to one or more of the Placement Agents equal to between 8% and 12% of the gross amount of Debentures sold in this Private Placement and to issue to the Placement Agents warrants to purchase shares of Common Stock equal to between 4% and 10% of the total number of shares of Common Stock into which the Debentures convert. Non-refundable retainer fees totaling $18,000 have been paid and the company is obligated to pay another $33,000 in fees when certain fundraising milestones of the Private Placement are met. The Company has agreed to reimburse certain reasonable expenses incurred with regards services in the Private Placement, up to a maximum reimbursement of $45,000.

NOTE 12:- SUBSEQUENT EVENTS (CONT.)

In addition, the Company has entered into another agreement engaging an exclusive lead underwriter and sole bookrunner in connection with a contemplated IPO in the United States (hereinafter "the IPO") for a period of 12 months. The Company has agreed to pay compensation in connection with the IPO equal to a 10% cash commission on the gross proceeds raised in the IPO and the issuance of a warrant to purchase an amount equal to 10% of the shares sold in the IPO. In addition, the Company will pay a 2% corporate finance fee with respect to the gross proceeds raised.

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