MEDGENICS, INC. AND ITS SUBSIDIARY

(A company in the development stage)

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2007

IN U.S. DOLLARS

Chairman's Review

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

Operational Review

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

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

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

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

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

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

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

Preparation for Phase I/II trial of EPODURE

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

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

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

Important Milestones since the year-end

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

- We have significantly enhanced the clinical and technical teams that will be driving the trial forward. In particular, we are very pleased that Dr. Ehud Shoshani, former CEO of Quintiles, Israel, has joined the Company as Vice President of Clinical Affairs. Dr. Shoshani has 13 years' experience in managing clinical trials. Not only will his experience be highly valuable to Medgenics in completing the preparations for and the launch and the management of our imminent Phase I/II clinical trial for EPODURE, but also, in the development of our future clinical programmes for this and our other pipeline products.

- We have successfully manufactured the key 'gutless' adenoviral vector in a GMP vector production facility was a significant achievement for the Company from a technological standpoint. We have tested this vector and are confident that it will be used to prepare EPODURE Biopumps capable of producing sufficient daily amounts of EPO to meet the Company's requirements for use in the trial.

- The Company has completed the design, fabrication and evaluation of the key proprietary devices required for harvesting patient micro-organs and implanting Biopumps, including EPODURE, back into patients.

- The Group's operations were relocated to a new facility in March 2008 in the Teradion Business Park in Misgav, thereby bringing all operations under one roof and representing an important step for enhancing communication among the various departments.

<u>Board Appointment</u>

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

Financial Review

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

* Group general and administrative expenses were $1.4 million (2006: $1.8 million)

* Operating loss was $3.4 million (2006: $2.6 million)

* Loss on ordinary activities before taxation for the year was $3.9 million (2006: $2.6 million)

* Loss per share was $0.06 (2006: $0.07)

* Cash at bank at the year-end was $4.7 million (2006: $1.6 million)

* Consolidated balance sheet has increased net assets of $3.3 million (2006: $987,000)

Outlook

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

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

18 June 2008

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

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2007

IN U. S. DOLLARS

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REPORT OF INDEPENDENT AUDITORS

TO THE 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, 2007 and 2006, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the years then ended, and for the period from January 27, 2000 (date of inception) through December 31, 2007. 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, and cash flows for the period from January 27, 2000 (date of inception) through December 31, 2007, 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, 2007 and 2006, 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, 2007, 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 developing stage, has incurred recurring operating losses and has an accumulated deficit of approximately $25.3 million as of December 31, 2007. 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.

As discussed in Note 2(i) to the consolidated financial statements, the Company adopted effective January 1, 2006, the provisions of Statement of Financial Accounting Standards No.123(R), "Share-Based Payment".

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

Haifa, Israel
June 18, 2008

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

CONSOLIDATED BALANCE SHEETS
In US Dollars

	Note	December 31, 2007	December 31, 2006
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3	$4,683,914	$1,607,474
Accounts receivable and prepaid expenses	4	394,652	193,972
Total current assets		5,078,566	1,801,446
SEVERANCE PAY FUND		92,235	29,513
PROPERTY AND EQUIPMENT, NET	5	134,240	58,689
Total assets		$ 5,305,041	$1,889,648

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

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

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

	Note	December 31, 2007	December 31, 2006
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short – term bank credit	6	$ 9,714	$ 17,644
Trade payables	7	459,117	133,095
Other accounts payable and accrued expenses	9	845,653	422,649
Total current liabilities		1,314,484	573,388
ACCRUED SEVERANCE PAY		662,791	329,509
Total liabilities		1,977,275	902,897
COMMITMENTS AND CONTINGENCIES	10		
SHAREHOLDERS' EQUITY:	11		
New Common shares - $0.0001 par value; 500,000,000 and 534,787,250 shares authorized at December 31, 2007 and 2006, respectively; 104,093,417 and 57,405,326 shares issued and outstanding at December 31, 2007 and 2006, respectively		10,409	268
New preferred shares - $0.0001 par value; 0 and 10,000,000 shares authorized at December 31, 2007 and 2006, respectively		-	-
Additional paid-in capital		28,634,642	22,452,429
Deficit accumulated during the development stage		(25,317,285)	(21,465,946)
Total shareholders' equity		3,327,766	986,751
		$ 5,305,041	$1,889,648

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		Period from inception (January 27, 2000) through December 31,
		2007	2006	2007
Research and development expenses, net	21	$1,986,710	$ 748,161	$13,388,564
General and administrative expenses		1,439,054	1,821,613	11,389,859
Loss from disposal of property and equipment		-	3,453	325,842
Operating loss		3,425,764	2,573,227	25,104,265
Financial expenses, net		414,972	25,378	583,538
Loss before taxes on income		3,840,736	2,598,605	25,687,803
Taxes on income	12	10,603	-	66,679
Net loss		$3,851,339	$2,598,605	$25,754,482
Basic and diluted net loss per share		$ 0.06	$ 0.07	
Weighted average number of shares used in per share calculation		64,968,152	31,455,474	

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

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

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 at 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)

	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 at 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 at 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.

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

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 at 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 at 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.

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

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 at 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 at 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 at 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.

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

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 at 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 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 at 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.

MEDGENICS, INC. AND ITS SUBSIDIARY
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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 at 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 (see Note 8)	-	-	511,391	-	511,391
Net loss	-	-	-	(3,851,339)	(3,851,339)
Balance at 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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
In US Dollars

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
In US Dollars

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

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 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) (see Note 11d (19-22)).

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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.

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 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").

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

i. Stock based compensation (cont.)

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

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

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

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

Expected volatilities are based on historical volatilities from traded stock of similar companies.

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

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

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

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

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

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

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 New Common shares outstanding during each year. Diluted net loss per share is computed based on the weighted average number of New 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”.

Net loss in 2006 is adjusted for the excess fair value added to the deficit accumulated during the development stage upon conversion of preferred shares (see Note 11c).

k. Research and development costs

All research and development costs, 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 costs. Research and development grants amounted to $565,559, $175,013 and $1,903,262 for the years ended December 31, 2007 and 2006 and for the period from inception (January 27, 2000) through December 31, 2007, respectively.

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 financially sound 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, 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 September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). This Standard defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. The provisions of SFAS No. 157 are effective for the Company beginning January 1, 2008. The FASB issued a FASB Staff Position (FSP) to defer the effective date of SFAS No. 157 for one year for all nonfinancial assets and nonfinancial liabilities, except for those items that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company is currently evaluating the impact of adopting SFAS 157.

   On February 12, 2008, the FASB issued FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157 (the FSP). The FSP amends FASB Statement No. 157, Fair Value Measurements (Statement 157), to delay the effective date of Statement 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (that is, at least annually). For items within its scope, the FSP defers the effective date of Statement 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The Company is currently evaluating the impact that this pronouncement may have on its consolidated financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

2. In November 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.

3. In June 2007, the Emerging Issues Task Force of the FASB ("EITF") reached a consensus on Issue No. 07-3, Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities (EITF 07-3). EITF 07-3 requires that non-refundable advance payments for goods or services that will be used or rendered for future research and development activities should be deferred and capitalized. The deferred amounts would be recognized as an expense as the related goods are delivered or the services are performed, or when the goods or services are no longer expected to be provided. This pronouncement is effective for financial statements issued for fiscal years beginning after December 15, 2007 and earlier application is permitted. EITF 07-3 is to be applied prospectively for new contracts entered into on or after the effective date. The Company is currently evaluating the impact that this pronouncement may have on its consolidated financial statements.

4. In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"). SFAS No. 159 permits companies to choose to measure certain financial instruments and certain other items at fair value. The Standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings. The provisions of SFAS No. 159 are effective for the Company beginning January 1, 2008. The Company is currently evaluating the impact of adopting SFAS 159.

5. 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

6. 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 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.

NOTE 3:- CASH AND CASH EQUIVALENTS

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

NOTE 4:- ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

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

NOTE 5:- PROPERTY AND EQUIPMENT,NET

Composition of property and equipment is as follows:

	December 31,	
	2007	**2006**
Cost:		
Furniture and office equipment	$18,682	$13,172
Computers and peripheral equipment	18,984	7,468
Laboratory equipment	100,738	47,819
Leasehold improvements	20,289	-
Total cost	158,693	68,459
Accumulated depreciation:		
Furniture and office equipment	3,632	330
Computers and peripheral equipment	5,185	1,207
Laboratory equipment	15,636	8,233
Total accumulated depreciation	24,453	9,770
Depreciated cost	$ 134,240	$ 58,689

Depreciation expense for the years ended December 31, 2007 and 2006 and for the period from inception (January 27, 2000) through December 31, 2007 amounted to $14,683, $10,059 and $647,467, respectively.

NOTE 6:- SHORT – TERM BANK CREDIT

	December 31,	
	2007	**2006**
Bank credit - denominated in NIS	$9,714	$ 17,644

NOTE 7:- TRADE PAYABLES

	December 31,	
	2007	**2006**
Open accounts	$ 387,434	$ 115,586
Notes payable	71,683	17,509
	$ 459,117	$ 133,095

NOTE 8:- CONVERTIBLE NOTE

On August 13, 2007 the Company received US $1.05 million by way of a convertible unsecured promissory note ("Note"). According to the terms and conditions of the Note, the Note is convertible on or prior to October 31, 2007 into New Common shares at a conversion price of $0.164. However, if admission to the London Stock Exchange's Alternative Investment Market (AIM) ("Admission") occurred prior to October 5, 2007, the conversion price changes to $0.175. The Note bears no interest. The Note shall be repaid by October 31, 2007. If the conversion does not take place by October 31, 2007 the Note would bear an annual interest rate of 15%. In addition the Company will issue to the Note holder warrants for the purchase of up to 3,208,724 New Common shares. The issuance of warrants for the purchase of up to 1,604,362 New Common shares is contingent upon the Admission.

The warrants have a contractual term of 5 years. The exercise price of the warrants is $0.164 per common share.

Furthermore, according to the terms of the Note, in the event that all or any portion of the Note is automatically converted, the Company has agreed to sell the investor 772,761 New Common shares at the placing price in the admission of GBP 0.10 ($0.21).

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 6,417,447 New Common shares and the additional warrants to purchase 1,604,362 New Common shares were issued (see Note 11d (19)).

NOTE 9:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

NOTE 10:- 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 to 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, 2007 the Company had not reached the cumulative investment that would requires the 2nd 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 to the Company a non exclusive worldwide license of 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;
   iii 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 10:- COMMITMENTS AND CONTINGENCIES (CONT.)

b. Letter of credit

Under the terms of an irrevocable Letter of Credit issued on 26 November, 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 in installments of $100,000 or multiples of that amount. 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 arranging the necessary the issue of the Letter of Credit, the Company paid as follows: (i) $12,500 in cash (ii) issuance of 76,389 New Common shares with a market value of $15,748.
In the event that the Letter of Credit remains outstanding at the 12 month anniversary of the date of issue, the Company will pay to the Trust a fee of $6,000 that will be paid as follows: (i) $3,000 shall be paid in cash (ii) $3,000 will be paid by the issuance of New Common shares, the price of which will be determined by the average of the closing bid price of the New Common shares during the three months before November 26, 2008.
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 New Common shares. The conversion price will be determined by the average of the closing bid price of the New Common shares during the three months before May 28, 2009. As of December 31, 2007 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, up to 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, 2007 the aggregate contingent liability amounted to approximately $2.2 million.

NOTE 10:- COMMITMENTS AND CONTINGENCIES (CONT.)

d. Lease Agreement

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 the years ended December 31, are as follows:

	U.S.$
2008	$54,108
2009	54,108
2010	54,108
	$162,324

The subsidiary provided a guarantee at an amount of approximately $20,832 in respect of the lease agreement.

NOTE 11:- SHAREHOLDERS' EQUITY

a. Composition:

	December 31,		December 31,	
	2007	2006	2007	2006
	Authorized		Issued and Outstanding	
	Number of shares			
Shares of $0.0001 par value:				
New Common shares	500,000,000	534,787,250	104,093,417	57,405,326
New preferred shares	-	10,000,000	-	-

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

NOTE 11:- SHAREHOLDERS' EQUITY (cont.)

b. Common shares

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.

On March 30, 2006, the Common shares were converted into New Common shares as a result of the recapitalization of the equity capital, see c below. The New Common shares as 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 New Common shares, Series A Preferred shares and Series B Preferred shares were converted into New Common shares. In addition, the Series C warrants were cancelled. The conversion rates were as follows:

1. A total of 11,982,914 New Common Shares were issued to the holders of the convertible Note upon conversion of the Note.
2. One New Common share was issued for 10,578.95 Common shares.
3. One New Common share was issued for 404.51 Series A Preferred shares.
4. One New 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 New Common shares .In addition, the Company issued 11,982,914 New 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 New Common shares that would have been issued pursuant to the original conversion terms of the Preferred shares over the fair value of the New 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 11:- 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 Common shares at par value.
2. In August 2000 the Company issued 437,936 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 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. 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.
6. 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.
7. In February, September and November 2003, the Company issued a total of 19,443 Common shares in consideration of $ 195, upon exercise of stock options.
8. 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.
9. In January and February 2004, the Company issued a total of 46,083 Common shares in consideration of $127 in cash upon exercise of stock options and $10,000 in consideration for services.
10. In March 2006, the Company issued 2,633,228 New Common shares in settlement of due debt.
11. In March 2006, as part of the Recapitalization, warrants to purchase 2,139,106 New Common shares at an exercise price per share of $0.000 with a term of 5 years were issued by the Company to existing holders of Common shares who signed a consent agreement to the Recapitalization (see c above) with the Company.
12. In March, April and June 2006, the Company issued a total of 16,217,552 New Common shares and warrants to purchase 32,434,034 New 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.
13. In November and December 2006, the Company issued a total of 16,685,790 New Common shares and warrants to purchase 20,857,238 shares at an exercise price of $0.117 and a term of 5 years in consideration for $1,949,467. The issuance costs amounted to $334,721.
14. In January 2007 the Company issued a total of 427,402 New Common shares and warrants to purchase 534,252 New 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.
15. In May, July, and August 2007 the Company issued a total of 7,647,436 New Common shares and warrants to purchase 1,634,909 New 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 11:- SHAREHOLDERS' EQUITY (CONT.)

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

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

e. Stock options

1. As part of the Recapitalization Agreement that was signed March 30, 2006, the Company adopted a stock option plan according to which up to 21,327,380 options to purchase 21,327,380 New 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 of $ 0.071 per share. 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.

NOTE 11:- SHAREHOLDERS' EQUITY (CONT.)

e. Stock options (cont.)

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 New 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 exercise the warrant into New Common shares at any time during the exercise period without payment by the holder of any exercise price or any cash or other consideration ("Net Issuance"). The number of shares to be issued will be determined in accordance with the formula described in the warrant agreement.
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 New Common shares to a total of 48,494,572 shares of New Common shares. During 2007, 1,497,404 options exercisable at $0.120 per share and 15,793,940 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 New 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 New 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. As of December 31, 2007, there were 38,618,720 options outstanding in the stock option plan.
7. Summary of the Company's stock option and warrant activity to employees and directors, and related information:

	Year ended December 31, 2007		Year ended December 31, 2006	
	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	67,578,006	$ 0.06	-	$ -
Granted	14,017,481	0.20	67,578,006	0.06
Outstanding at the end of the year	81,595,487	0.08	67,578,006	0.06
Exercisable warrants and options	54,882,921	$ 0.05	49,762,595	$ 0.05

The weighted-average grant-date fair value of options granted to employees and directors during the year ended December 31, 2007 and 2006 was $0.10 and $0.02, respectively.

As of December 31, 2007, there was $1,205,356 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 3.1 years.

NOTE 11:- SHAREHOLDERS' EQUITY (CONT.)

e. Stock options (cont.)

8. The Company's outstanding options under the Company's stock option plan and warrants to employees as of December 31, 2007 have been separated into ranges of exercise prices as follows:

Issuance date	Options and warrants outstanding	Exercise price	Options and warrants exercisable	Weighed average remaining contractual term
March 2006	14,480,755	$ 0.0005	14,480,755	3.25
March 2006	46,478,723	$ 0.0709	38,480,943	3.25
April 2006	1,599,549	$ 0.0709	533,183	3.28
May 2006	3,419,430	$ 0.0709	854,857	3.36
September 2006	1,599,549	$ 0.0709	533,183	3.72
August 2007	1,497,404	$ 0.1200	-	4.64
November 2007	12,520,077	$ 0.2100	-	4.87

9. 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,	
	2007	2006
Research and development expenses	$ 46,484	$ 21,407
General and administrative expenses	125,611	1,034,255
	$ 172,095	$ 1,055,662

NOTE 11:- SHAREHOLDERS' EQUITY (CONT.)

e. Stock options (cont.)

10. 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, 2007		Year ended December 31, 2006	
	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	16,382,139	$ 0.07	-	$ -
Granted	6,425,919	0.20	16,382,139	0.07
Outstanding at the end of the year	22,808,058	0.12	16,382,139	0.07
Exercisable option and warrants	16,258,978	$ 0.08	11,789,385	$ 0.07

The weighted-average grant-date fair value of options and warrants granted to non-employees during the year ended December 31, 2007 and 2006 was $ 0.12 and 0.03, respectively. As of December 31, 2007, there was $ 908,068 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 2.6 years.

11. The Company's outstanding options under the Company stock option plan and warrants to non-employees as of December 31, 2007 are as follows:

Issuance date	Options and warrants outstanding	Exercise price per share	Options and warrants exercisable	Weighed average remaining contractual term
March 2006	1,200,063	$0.000	1,200,063	3.25
March 2006	8,687,084	$0.071	8,687,084	2.76
April 2006	961,013	$0.071	640,140	3.26
May 2006	2,132,732	$0.071	533,183	3.36
June 2006	2,032,192	$0.071	677,397	3.50
October 2006	1,369,055	$0.117	1,369,055	3.81
August 2007	1,046,942	$0.164	1,046,942	4.62
November 2007	3,273,863	$0.210	-	4.87
December 2007	763,846	$0.194	763,846	4.93
December 2007	458,308	$0.190	458,308	4.93
December 2007	96,262	$0.164	96,262	4.93
December 2007	192,523	$0.160	192,523	4.93
December 2007	594,175	$0.210	594,175	4.93

NOTE 11:- SHAREHOLDERS' EQUITY (CONT.)

e. Stock options (cont.)

12. 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,	
	2007	2006
Research and development expenses	$ 64,694	$ 64,796
General and administrative expenses	110,013	40,829
	$ 174,707	$ 105,625

The Company also recognized issuance costs in the statements of changes in shareholders' equity at the amount of $344,453 in connection with warrants issued in 2007.

NOTE 12:- TAXES ON INCOME

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

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

b. Carryforward tax loss

As of December 31, 2007, the Company had a net operating loss carryforward for federal income tax purposes of approximately $17.1 million which will begin to expire in the year 2020. Utilization of the Company's net operating loss may be subject to substantial annual limitation due to ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such an annual limitation could result in the expiration of the net operating loss before utilization. As a result of the implementation of FIN 48 (see note 2h) the Company recognized for purposes of deferred tax calculations carryforward losses in the amount of $3.3 million. As of December 31, 2007 the Company had net operating loss carryforward for state franchise tax purposes of approximately $3.3 million which will begin to expire in 2011.
As of December 31, 2007 the subsidiary had a carryforward tax loss for Israeli purposes in the amount of approximately $3.1 million which can be carried forward indefinitely.

c. **Deferred income taxes**

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

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

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

The decrease in the deferred tax asset due to operating loss carryforward balance from $7,147,528 in 2006 to $2,204,528 in 2007 resulted from the application of FIN 48 (see Note 12b)

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

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

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

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

NOTE 13:- SUBSEQUENT EVENTS

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

b. In January 2008, a total of 3,560,314 warrants were exercised in a cashless conversion to 2,414,326 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.

c. In April 2008, a series of agreements were concluded with Hadasit Medical Research and Development Ltd. ("Hadasit") to conduct a clinical trial at Hadassah Medical Center. The Company will pay to Hadasit $8,400 per month to conduct the trial in addition to an estimated cost of $9,156 per patient in the trial. The Company will also use the GMP lab facilities at a cost of $30,000 per month.