

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

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2008

IN US DOLLARS

(UNAUDITED)

Chairman's Review

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

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

EPODURE is based on Medgenics' revolutionary proprietary platform technology for treating certain chronic diseases, whereby a biological "Biopump" is created from patients' own tissue, enabling them to produce their own natural human protein therapy for what we hope will be up to six months or more from a single procedure. We believe this technology has the potential to improve significantly the treatment of such diseases by improving efficacy, reducing side-effects, eliminating frequent injections, improving patient compliance and quality of life and reducing overall healthcare costs associated with existing treatments.

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

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

Our strategy for commercialization is to develop alliances with major partners and to proceed with further clinical trials leading to eventual FDA, EMEA and/or other regulatory approvals and eventual clinical adoption of EPODURE. Furthermore, in the longer-term, we also plan to pursue similar steps towards commercialization of other potential applications of the Biopump platform technology. Pending the success of the Phase I/II trial of EPODURE, our next product is likely to be INFRADURE, which we are developing to produce and deliver interferon-alpha for the treatment of hepatitis C. In preclinical *in vitro* studies with this product we have already demonstrated that it can produce therapeutically relevant amounts for more than six months.

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

Key events during the period

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

- We have significantly enhanced the clinical and technical teams that will be driving the trial forward. In particular, we are pleased that Dr. Ehud Shoshani, former CEO of Quintiles, Israel, has joined the Company as Vice President of Clinical Affairs. Dr. Shoshani has 13 years' experience in managing clinical trials. Not only will his experience be highly valuable to Medgenics in completing the preparations for and

the launch and the management of our imminent Phase I/II clinical trial for EPODURE, but also, in the development of our future clinical programmes for this and our other pipeline products.

- We have successfully manufactured the key 'gutless' adenoviral vector in a GMP vector production facility which was a significant achievement for the Company from a technological standpoint. We have tested this vector and are confident that it can be used to prepare EPODURE Biopumps capable of producing sufficient daily amounts of EPO to meet the Company's requirements for use in the trial.
- The Company has completed the design, fabrication and evaluation of the key proprietary devices required for harvesting patient micro-organs and implanting Biopumps, including EPODURE, back into patients.
- The Group's operations were relocated to a new facility in March 2008 in the Teradion Business Park in Misgav, thereby bringing all operations under one roof and representing an important step for enhancing communication among the various departments.

Board Appointment

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

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

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

Outlook

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

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

Eugene A. Bauer, MD

Chairman of the Board of Directors

24 September 2008

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(UNAUDITED)

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

CONSOLIDATED BALANCE SHEETS

In US Dollars

| | June 30, 2008 | December 31, 2007 |
|--|--------------------------|------------------------------|
| | Unaudited | Audited |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$1640909 | \$4683914 |
| Short term investments | 100968 | - |
| Other accounts receivable and prepaid expenses | 434545 | 394652 |
| | 2176422 | 5078566 |
| <u>Total</u> current assets | 2176422 | 5078566 |
| SEVERANCE PAY FUND | 134503 | 92235 |
| PROPERTY AND EQUIPMENT, NET | 443692 | 134240 |
| | \$2754617 | \$5305041 |
| <u>Total</u> assets | \$2754617 | \$5305041 |

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)

| | June 30, 2008 Unaudited | December 31, 2007 Audited |
|--|--|--|
| | <u> </u> | <u> </u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Short – term bank credit | \$ - | \$9714 |
| Trade payables | 605035 | 459117 |
| Other accounts payable and accrued expenses | 716957 | 845653 |
| | <u> </u> | <u> </u> |
| <u>Total</u> current liabilities | 1321992 | 1314484 |
| | ----- | ----- |
| LONG-TERM LIABILITIES: | | |
| Accrued severance pay | 825373 | 662791 |
| | <u> </u> | <u> </u> |
| <u>Total</u> liabilities | 2147365 | 1977275 |
| | ----- | ----- |
| SHAREHOLDERS' EQUITY: | | |
| New Common shares - \$0.0001 par value; 500,000,000 shares authorized at June 30, 2008 and December 31, 2007; 106,698,076 and 104,093,417 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively | | |
| Additional paid-in capital | 10669 | 10409 |
| Deficit accumulated during the development stage | 28885176 | 28634642 |
| | <u>(28288593)</u> | <u>(25317285)</u> |
| | <u> </u> | <u> </u> |
| Total shareholders' equity | 607252 | 3327766 |
| | ----- | ----- |
| Total liabilities and shareholders' equity | <u>\$2754617</u> | <u>\$5305041</u> |

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 OPERATIONS

In US Dollars (except for share data)

| | <u>Six months ended June 30,</u> <u>2008</u> | <u>2007</u> | <u>Year ended</u> <u>December 31,</u> <u>2007</u> | <u>From date</u> <u>of</u> <u>inception</u> <u>(January 27,</u> <u>2000)</u> <u>through</u> <u>June 30,</u> <u>2008</u> |
|---|---|-------------|---|--|
| | <u>Unaudited</u> | | <u>Audited</u> | <u>Unaudited</u> |
| Research and development expenses, net | \$1632531 | \$443717 | \$1986710 | \$15021095 |
| General and administrative expenses | 1388281 | 637660 | 1439054 | 12778140 |
| Loss from disposal of property and equipment | - | - | - | 325,842 |
| Operating loss | 3020812 | 1081377 | 3425764 | 28125077 |
| Financial (income) expenses, net | (51343) | (42093) | 414972 | 532195 |
| Loss before taxes on income | 2969469 | 1039284 | 3840736 | 28657272 |
| Taxes on income | 1839 | - | 10603 | 68518 |
| Net loss for the period | \$2971308 | \$1039284 | \$3851339 | \$28725790 |
| Basic and diluted net loss per share | \$0.03 | \$0.02 | \$0.06 | |
| Weighted average number of shares used in per share calculation | 106204484 | 58695498 | 64968152 | |

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 | | Addition al Paid-in Capital | Deferred Stock Compensa tion | Deficit Accumula ted During the Developm ent Stage | Total Share holders' Equity (Defi ciency) |
|--|--|--------|---------------------------|--------|---------------------------|-----------|--------------------------------------|---------------------------------------|---|--|
| | 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 | - | 342 | - | - | - | (342) | - | - | - | |
| Dividend | - | - | - | 14 | - | - | - | - | - | |
| Issuance of Preferred shares in January 2001 at \$1.41 per share, net | - | - | 138,502 | - | - | 195,122 | - | - | 195,122 | |
| Issuance of Preferred shares in March and June 2001 at \$1.67 per share, net | - | - | 4,085,837 | 408 | - | 6,805,968 | - | - | 6,806,375 | |
| 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 | - | - | 510,8 |
| Net loss | - | - | - | - | - | - | - | - | (3243701) | (324 |
| Balance as of December 31, 2001 | 3,448,563 | \$345 | 4,224,339 | \$422 | - | \$ | \$8,259,779 | (\$207285) | (\$3924917) | \$412 |

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 | | Addition al Paid-in Capital | Deferred Stock Compensation | Deficit Accumula ted During the Developm ent Stage | To Shar e (Def) |
|---|------------------|--------|---------------------------|--------|---------------------------|--------|-----------------------------|-----------------------------|--|------------------|
| | Number of Shares | Amount | Number of Shares | Amount | Number of Shares | Amount | | | | |
| Balance as of December 31, 2001 | 3448563 | \$345 | 4224339 | \$422 | - | \$ | \$8259779 | (\$207285) | (\$3924917) | \$412 |
| Issuance of Preferred shares In October 2002 at \$1.97 per share, net | - | - | - | - | 2,676,674 | 268 | 5,264,352 | - | - | 5,264 |
| Deferred stock compensation | - | - | - | - | - | - | 63855 | (63855) | - | - |
| Amortization of deferred stock compensation | - | - | - | - | - | - | - | 66,937 | - | 66,937 |
| Stock based compensation expenses related to options to consultants | - | - | - | - | - | - | 371,560 | - | - | 371,560 |
| Net loss | - | - | - | - | - | - | - | - | (5049391) | (5049391) |
| Balance as of December 31, 2002 | 3448563 | \$345 | 4224339 | \$422 | 2676674 | \$268 | \$1395954 | (\$204203) | (\$8974308) | \$478 |

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STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

In US Dollars (except for share data)

| | Common shares | | Preferred shares Series A | | Preferred shares Series B | | Addition al Paid-in Capital | Deferred Stock Compen sation | Deficit Accumulat ed During the Developme nt Stage | To Shar es Eq (Defi ciency) |
|--|------------------------|--------------|---------------------------|--------------|---------------------------|--------------|--------------------------------------|---------------------------------------|--|--|
| | Number of Shares | Amount | Number of Shares | Amount | Number of Shares | Amount | | | | |
| | | | | | | | | | | |
| Balance as of December 31, 2002 | 3448563 | \$345 | 4224339 | \$422 | 2676674 | \$268 | \$1395954 | (\$204203) | (\$8974308) | \$478,000 |
| Exercise of stock options | 19443 | 2 | - | - | - | - | 193 | - | - | 195 |
| Issuance of Preferred shares in April 2003 at \$ 2.00 per share, net | - | - | - | - | 216,507 | - | 432,994 | - | - | 433,000 |
| Issuance of Preferred shares in May 2003 at \$ 2.00 per share, net | - | - | - | - | 850,490 | - | 1,603,783 | - | - | 1,603,000 |
| Deferred stock compensation | - | - | - | - | - | - | 440811 | (440811) | - | - |
| Amortization of deferred stock compensation | - | - | - | - | - | - | - | 105,213 | - | 105,200 |
| Stock based compensation expenses related to options to consultants | - | - | - | - | - | - | 475,469 | - | - | 475,400 |
| Net loss | - | - | - | - | - | - | - | - | (5038272) | (5038,000) |
| Balance as of December 31, 2003 | <u>3468006</u> | <u>\$347</u> | <u>4224339</u> | <u>\$422</u> | <u>3743671</u> | <u>\$375</u> | <u>\$1691279</u> | <u>(\$539801)</u> | <u>(14012580)</u> | <u>\$236,000</u> |

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

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STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

In US Dollars (except for share data)

| | Common shares | | Preferred shares Series A | | Preferred shares Series B | | Additional Paid-in Capital | Deferred Stock Compensation | Deficit Accumulated During the Development Stage | Total Shareholders' Equity (Deficiency) |
|--|------------------|--------------|---------------------------|--------------|---------------------------|--------------|----------------------------|-----------------------------|--|---|
| | Number of Shares | Amount | Number of Shares | Amount | Number of Shares | Amount | | | | |
| Balance as of December 31, 2003 | 3468006 | \$347 | 4224339 | \$422 | 3743671 | \$375 | \$1691279 | (\$539801) | (\$1401258) | \$236 |
| Exercise of stock options | 12750 | 1 | - | - | - | - | 126 | - | - | 127 |
| Stock based compensation related to shares to consultants | 33333 | 3 | - | - | - | - | 9997 | - | - | 10000 |
| Amortization of deferred stock compensation - Stock based compensation expense related to options to consultants | - | - | - | - | - | - | - | 539801 | - | 539801 |
| Net loss | - | - | - | - | - | - | 346762 | - | - | 346762 |
| | - | - | - | - | - | - | - | - | (4515829) | (4515829) |
| Balance as of December 31, 2004 | 3514089 | \$351 | 4224339 | \$422 | 3743671 | \$375 | \$1726968 | \$- | (\$1852840) | (\$125801) |
| Net loss | - | - | - | - | - | - | - | - | (776129) | (776129) |
| Balance as of December 31, 2005 | <u>3514089</u> | <u>\$351</u> | <u>4224339</u> | <u>\$422</u> | <u>3743671</u> | <u>\$375</u> | <u>\$1726968</u> | <u>\$-</u> | <u>(\$1930453)</u> | <u>(\$206453)</u> |

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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 | | 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 | - | \$ - | 4E+06 | \$351 | 4E+06 | \$422 | 4E+06 | \$375 | \$1726968 | (\$193045) | (\$203370) |
| Conversion of common shares, Series A and Series B Preferred shares into New Common shares | 1E+07 | 46 | -4E+06 | (351) | -4E+06 | (422) | -4E+06 | (375) | (436095) | 437197 | - |
| Conversion of convertible Note into New Common shares | 1E+07 | 56 | - | - | - | - | - | - | 1795016 | - | 1795072 |
| Issuance of New Common shares in settlement of due debt in March 2006 | 3E+06 | 12 | - | - | - | - | - | - | 96004 | - | 96016 |
| Issuance of New Common shares and warrants in March 2006 at \$0.07 per share and warrant, net | 1E+07 | 66 | - | - | - | - | - | - | 828197 | - | 828263 |
| Issuance of New Common shares and warrants in April 2006 at \$0.07 per share and warrant, net | 513396 | 2 | - | - | - | - | - | - | 30133 | - | 30135 |
| Issuance of New Common shares and warrants in June 2006 at \$0.07 per share and warrant, net | 2E+06 | 8 | - | - | - | - | - | - | 93538 | - | 93546 |
| Issuance of New Common shares and warrants in November 2006 at \$0.12 per share and warrant, net | 5E+06 | 25 | - | - | - | - | - | - | 521752 | - | 521777 |
| Issuance of New Common shares and warrants in December 2006 at \$0.12 per share and warrant, net | 1E+07 | 53 | - | - | - | - | - | - | 1092916 | - | 1092965 |
| Stock based compensation expense related to options and warrants granted to consultants and employees | - | - | - | - | - | - | - | - | 1161287 | - | 1161287 |
| Net loss | - | - | - | - | - | - | - | - | - | -2.6E+06 | -2.6E+0 |
| Balance as of December 31, 2006 | 6E+07 | \$268 | - | \$ | - | \$ | - | \$ | \$2245242 | (\$214659) | \$986751 |

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STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

In US Dollars (except for share data)

| | <u>New Common shares</u> | | <u>Additional</u> | <u>Deficit</u> | <u>Total</u> |
|---|--------------------------|----------------|-------------------|--------------------|-----------------|
| | <u>Number</u> | | <u>Paid-in</u> | <u>Accumula</u> | <u>Shareho</u> |
| | <u>of</u> | | <u>Capital</u> | <u>ted</u> | <u>ers'</u> |
| | <u>Shares</u> | <u>Amount</u> | | <u>During</u> | <u>Equity</u> |
| | | | | <u>the</u> | |
| | | | | <u>Developm</u> | |
| | | | | <u>ent</u> | |
| | | | | <u>Stage</u> | |
| Balance as of December 31, 2006 | 57405326 | \$268 | \$22452429 | (\$2146594) | \$9867 |
| Issuance of New Common shares and warrants in January 2007 at \$0.12 per share and warrant, net | 427402 | 2 | 33318 | - | 333 |
| Issuance of New Common shares and warrants in May 2007 at \$0.16 per share and warrant, net | 5347851 | 25 | 583636 | - | 5836 |
| Issuance of New Common shares in July 2007 at \$0.13 per share, net | 771612 | 3 | 84211 | - | 842 |
| Exercise of warrants in July 2007 | 451939 | 2 | - | - | |
| Issuance of New Common shares to consultant in August 2007, net | 122232 | 1 | (1) | - | |
| Issuance of New Common shares and warrants in August 2007 at \$0.16 per share and warrant, net | 1527973 | 7 | 166753 | - | 1667 |
| Stock split effected as stock dividend in December 2007 | - | 6297 | (6297) | - | |
| Conversion of convertible Note into New Common shares and issuance of warrants in December 2007, at \$0.16 per share and warrant, net | 6417447 | 642 | 699751 | - | 7003 |
| Issuance of New Common shares and warrants in December 2007 at \$0.19 - \$0.21 per share and warrant, net | 28537213 | 2853 | 3778659 | - | 37815 |
| Issuance of New Common shares and warrants to consultants in December 2007, net | 3008033 | 301 | (301) | - | |
| Issuance of New Common shares for arrangement of security for Letter of Credit in December 2007, net | 76389 | 8 | 15740 | - | 15748 |
| Issuance cost due to obligation to issue 142,609 New Common shares for consultant, net | - | - | (31449) | - | (31449) |
| Stock based compensation expense related to options granted to consultants and employees | - | - | 346802 | - | 346802 |
| Beneficial conversion feature embedded in Convertible Note. | - | - | 511391 | - | 511391 |
| Net loss | - | - | - | (3851339) | (3851339) |
| Balance as of December 31, 2007 | <u>1.04E+08</u> | <u>\$10409</u> | <u>\$28634642</u> | <u>(\$2531728)</u> | <u>\$332776</u> |

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)

| | <u>New Common shares</u> | | <u>Additional Paid-in Capital</u> | <u>Deficit Accumulated During the Development Stage</u> | <u>Total Shareholders' Equity</u> |
|---|---------------------------------|----------------|---|---|---|
| | <u>Number of Shares</u> | <u>Amount</u> | | | |
| Balance as of December 31, 2007 | 1.04E+08 | \$10409 | \$28634642 | (\$25317284) | \$3327760 |
| Exercise of warrants in January 2007 | 2462050 | 246 | (246) | - | - |
| Issuance of New Common shares to consultant in April 2008, net | 142609 | 14 | 31435 | - | 314 |
| Stock based compensation expense related to options granted to consultants and employees | - | - | 219345 | - | 219345 |
| Net loss | - | - | - | (2971308) | (2971308) |
| Balance as of June 30, 2008 | <u>1.07E+08</u> | <u>\$10669</u> | <u>\$28885176</u> | <u>(\$28288594)</u> | <u>\$607252</u> |

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

| | Six months ended June 30, | | Year ended December 31, | From date of inception (January 27, 2000) through June 30, |
|---|------------------------------|-------------|-------------------------------|--|
| | 2008 | 2007 | 2007 | 2008 |
| | Unaudited | Unaudited | Audited | Unaudited |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| Net loss | (\$2971308) | (\$1039284) | (\$3851339) | (\$28725790) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | | |
| Depreciation | 36912 | 3992 | 14683 | 684379 |
| Exchange differences on long term loan | - | - | - | 2950 |
| Loss from disposal of property and equipment | - | - | - | 325842 |
| Interest on Convertible Note | - | - | - | 247847 |
| 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 | 219345 | 104816 | 346802 | 4194925 |
| Amortization of beneficial conversion feature of convertible note | - | - | 511,391 | 511,391 |
| Purchase of short-term investment, net | (47278) | - | - | (47278) |
| Gain from short term investment | (53690) | - | - | (53690) |
| Accrued severance pay, net | 120314 | (1455) | 270560 | 690870 |
| Increase in trade payables | 163161 | 85268 | 308779 | 605035 |
| Increase in accounts receivable and pre-paid expenses | (39893) | (410768) | (200680) | (434545) |
| Increase (decrease) in other accounts payable and accrued expenses | 212494 | (140990) | 232812 | 812973 |
| Net cash used in operating activities | (2359943) | (1398421) | (2351244) | (21169343) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | |
| Proceeds from disposal of property and equipment | - | - | - | 172829 |
| Purchase of property and equipment | (363607) | (25395) | (72991) | (1626742) |
| Net cash used in investing activities | (363607) | (25395) | (72991) | (1453913) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | |
| Proceeds from issuance of shares, net | - | 905262 | 4458605 | 21979631 |
| Repayment of issuance expenses | (309741) | - | - | (309741) |
| Repayment of long-term loan | - | - | - | (73080) |
| Proceeds from long term loan | - | - | - | 70130 |

| | | | | |
|---|------------------|------------------|------------------|-----------------|
| Proceeds from cash for shares to be issued | - | 25000 | - | - |
| Proceeds from Convertible Note | - | - | 1050000 | 2597225 |
| Decrease in short-term bank credit | (9714) | (14387) | (7930) | - |
| | <u>(319455)</u> | <u>915875</u> | <u>5500675</u> | <u>24264165</u> |
| Net cash provided by (used in) financing activities | | | | |
| | <u>(3043005)</u> | <u>(507941)</u> | <u>3076440</u> | <u>1640909</u> |
| Increase (decrease) in cash and cash equivalents | | | | |
| Balance of cash and cash equivalents at the beginning of the period | <u>4683914</u> | <u>1607474</u> | <u>1607474</u> | <u>-</u> |
| | | | | |
| Balance of cash and cash equivalents at the end of the period | <u>\$1640909</u> | <u>\$1099533</u> | <u>\$4683914</u> | <u>1640909</u> |

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

| | Six months ended June 30, | | Year ended December 31, | From date of inception (January 27, 2000) through June 30, |
|--|------------------------------|-----------|----------------------------|--|
| | 2008 | 2007 | 2007 | 2008 |
| | Unaudited | Unaudited | Audited | Unaudited |
| Supplemental disclosure of cash flow information: | | | | |
| Cash paid during the period for: | | | | |
| Interest | (\$7145) | \$ - | (\$15583) | (\$45571) |
| Taxes | (\$1839) | \$ - | (\$2101) | (\$57982) |
| Supplemental disclosure of non cash flow information: | | | | |
| Accrued issuance expenses | \$ - | (\$75515) | (\$309741) | (\$460739) |
| Issuance of New Common shares upon conversion of a Convertible Note | \$ - | \$ - | \$1050000 | \$2845072 |
| Issuance of shares in settlement of debt | \$ - | \$ - | \$ - | \$96016 |
| Issuance cost due to obligation to issue New Common shares to consultant | \$ - | \$ - | (\$31449) | (\$31449) |
| Issuance of New Common shares to consultant | \$31449 | \$ - | \$ - | \$31449 |
| Purchase of property and equipment | \$ - | \$ - | \$17243 | \$17243 |

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

MEDGENICS, INC. AND ITS SUBSIDIARY

(A company in the development stage)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In US Dollars

NOTE 1:- GENERAL

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

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

- b.** The Company and its subsidiary are in the development stage. The subsidiary ceased operating in 2004 and in 2006 renewed its research and development activities after having raised additional funds. As reflected in the accompanying financial statements, the Company and its subsidiary incurred a loss for the six months ended June 30, 2008 amounting to \$ 2,971,308 and have an accumulated deficit since inception in the amount of \$ 28,288,593. The Company and its subsidiary have not yet generated revenues and have negative cash flows from operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans include seeking additional investments to continue the operations of the Company and its subsidiary. However, there is no assurance that the Company will be successful in its efforts to raise the necessary capital to continue its planned research and development activities. The consolidated financial statements do not include any adjustments with respect to the carrying amounts of assets and liabilities and their classification that might result from the outcome of this uncertainty.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In US Dollars

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the financial statements as of June 30, 2008 are consistent with those applied in the financial statements as of December 31, 2007.

Impact of recently issued Accounting Standards

Emerging Issues Task Force document No. 07-05:

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

NOTE 3:- SHAREHOLDERS' EQUITY

Issuance of shares

- a. In January 2008, a total of 3,560,314 warrants were exercised in a cashless conversion to 2,414,326 New Common shares. In addition 47,724 warrants were exercised and resulted in the issue of 47,724 New Common shares. The cash consideration received upon exercise of the warrants was an immaterial amount.
- b. In April 2008, the Company issued a total of 142,609 Common shares to an advisor in consideration for assistance with the Company's fund raising endeavours in relation to the placing of the company shares on December 4, 2007.

NOTE 4:- UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

