

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

Misgav, Israel and London, UK – 30 September 2009 - Medgenics (AIM: MEDG and MEDU) is pleased to announce its unaudited half-yearly results for the six months ended 30 June 2009.

Highlights for the period

- Phase I/II safety and efficacy clinical trial with EPODURE demonstrating positive results.
- A Phase I/II clinical trial in the low dosage cohort has documented safety and efficacy of EPODURE as a sustained anaemia therapy lasting up to 11 months from a single treatment in kidney disease patients.
- Unprecedented milestones reached by Phase I/II patient: 12 months without an erythropoietin (EPO) injection, 11 months of anaemia relief from a single treatment of Biopump.
- Advanced discussions underway with several major Pharmaceutical companies regarding possible investments in both new and existing Biopump protein applications

Financial Summary (unaudited)

- Award of \$1.3 million through Israeli government grant.
- Completion of fund raising totalling \$570,000 in convertible debentures and approximately \$408,000 in warrant exercise programme.
- Net loss after tax for the six month period of \$2.23 million (2008: \$2.97 million) primarily as a result of furthering the Phase I/II clinical trial of EPODURE.
- R&D costs for the six month period of \$0.99 million (2008: \$1.63 million) and general and administrative costs of \$1.2 million (2008: \$1.39 million).
- Cash, cash equivalents and short-term investments at 30 June 2009 of \$0.05 million (at 30 June 2008: \$1.74 million).
- Medgenics continues to seek further funding to renew patient recruitment.

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

“During the first half of 2009 Medgenics has drawn growing encouragement from the continuing positive results of the Biopump anaemia study. EPODURE has demonstrated months of continuous treatment in nearly all the patients, with one who will shortly be celebrating an unprecedented full year of sustained protein therapy from a single administration. Besides demonstrating the potential of EPODURE as an anaemia treatment, we believe these results also provide powerful proof of the broader concept of Biopump as a method of sustained protein therapy. We are pleased by the significant progress with potential partners and institutional investors which gives us great hope that this will yield concrete results in the coming months. The raising of nearly \$1 million of additional operating funds through the issuance of convertible debentures and warrant exercises was also an important development. Meanwhile, the Company continues its focused efforts to raise additional funds in the coming months to enable it to support its existing operations, expand the clinical trial and its other operations and to realize the potential of the great opportunities it now has.”

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Chairman's Review

The Board of Medgenics presents the unaudited financial results of the Company and its subsidiary (the "Group") for the six months ended 30 June 2009.

The first half of 2009 has been important for Medgenics in that it provided key evidence over a longer term of the safety and efficacy of EPODURE as a sustained-action protein therapy to treat anaemia. This was shown particularly in the case of the results of Trial Patient 2, who has experienced an unprecedented 11 months of sustained protein treatment after a single administration of EPODURE in September 2009. The promising results of this trial were reflected in the confidence of investors in the fundraising, which secured \$978,000 of additional funding, much of which was raised from my fellow directors and existing investors, including those with expertise in the clinical field of renal disease which EPODURE aims to treat. Additionally, in Q2/09 the Group was awarded a government grant of \$1.3 million from the Office of the Chief Scientist (OCS) at the Ministry of Industry, Trade and Labor of Israel. These funds are awarded to industry in Israel to advance technological innovations and 2009 is the fourth consecutive year that Medgenics has received this respected grant. As most recently reported in August, the Company has progressed in discussions with several large pharmaceutical and medical device companies with whom the Company hopes to form strategic alliances for Biopumps producing a range of proteins for various clinical applications.

Clinical Development Review

During the first six months of 2009, Medgenics continued to gather and present results for its Phase I/II trial to determine the safety and efficacy of EPODURE, its lead protein therapy to treat anaemia. To date, seven clinical patients have been enrolled in the study. The first six patients received the lowest dose of 20 Units of EPO per kilogram per day through the Biopump, while the seventh was the first to receive the medium dose of 40 Units of EPO per kilogram per day through the Biopump. For the majority of the test subjects, the Biopump platform technology has proven effective in maintaining hemoglobin levels within the target range for many months, with one patient exceeding 11 months on a single administration of the low-dose treatment

The primary aim of the study is to assess the safety and efficacy of EPODURE in three controlled dose ranges, in providing sustained, elevated levels of the deficient protein EPO and, thereby, in elevating the red blood cell count and hemoglobin levels for six months or longer in those patients receiving appropriate doses. Throughout the trial to date, no adverse effects have been reported or observed other than minor localised bruising typically associated

with skin biopsies and implants. The treatment has been responded to positively by the test patients, two of which have requested to re-enrol at higher dosages.

Commercialisation Strategy

As I previously reported in May, commercialisation of the Company's proprietary platform technology through development of alliances with major partners, and further clinical trials to secure FDA, EMEA and/or other regulatory approvals and eventual clinical adoption of EPODURE, remain key strategic priorities for the Company. With initial positive results from the study, the Company has generated renewed interest from major potential strategic partners interested in multiple therapeutic applications of the technology. Particular interest has been noted with regards to applying the Biopump technology to other treatments including haemophilia and obesity. Further updates on these discussions will be made in due course.

Funding

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

Financial Review

The Company has incurred significant expenditure in establishing and carrying out its ongoing clinical trial. As a result, the Company has generated a loss of \$2.23 million in the first half of the year in further development of the Biopump platform technology. Since our IPO in December 2007, in which we raised \$6.72 million, we have secured \$570,000 through our recent Private Offering and \$406,000 from the warrant exercise programme in 2009; which fundraisings were notably supported by significant investments by Lord Leonard Steinberg and Mr. Joel Kanter and a new investment by Stephen McMurray all Directors of the Company, as well as by shareholders who are physicians with expertise in the clinical field addressed by Medgenics' lead product, EPODURE, and an additional \$95,000 from new investors. This was further bolstered by the yearly grants awarded by the OCS, which have been awarded every year for the past four years.

However, the Board remains aware that there is still significant further funding required in order to complete the trial and the Board is considering ways to raise funds through further equity fund raising, new grants and strategic partnerships. We will update Shareholders as soon as we have more concrete news to report on these fronts.

Outlook

With the results of the Phase I/II EPODURE safety and efficacy trial to date which have surpassed expectations, Medgenics has been able to demonstrate soundly the potential of the Group's platform technology of the Biopump, and the specific application of EPODURE for the treatment of renal anaemia. Our discussions with a number of major pharmaceutical companies are progressing well as the results of the trial further strengthen the viability of the Biopump as a long lasting, safe alternative to the treatment of chronic protein deficiencies.

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

30 September 2009

CONSOLIDATED BALANCE SHEETS

In US Dollars

	June 30, 2009	December 31, 2008
	Unaudited	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 53,479	\$ 1,043,338
Accounts receivable and prepaid expenses	116,325	121,794
<u>Total</u> current assets	<u>169,804</u>	<u>1,165,132</u>
LONG TERM ASSETS:		
Restricted lease deposit	22,432	22,607
Prepaid lease payments	22,443	22,443
Severance pay fund	203,010	171,048
<u>Total</u> long term assets	<u>247,885</u>	<u>216,098</u>
PROPERTY AND EQUIPMENT, NET	<u>361,365</u>	<u>400,214</u>
<u>Total</u> assets	<u>\$ 779,054</u>	<u>\$ 1,781,444</u>

CONSOLIDATED BALANCE SHEETS

In US Dollars

	June 30, 2009	December 31, 2008
	Unaudited	
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short – term bank credit	\$ 12,281	\$ 52,886
Trade payables	977,617	889,002
Other accounts payable and accrued expenses	1,397,748	1,068,518
<u>Total current liabilities</u>	<u>2,387,646</u>	<u>2,010,406</u>
LONG-TERM LIABILITIES:		
Accrued severance pay	904,913	818,639
Convertible debentures	273,130	-
<u>Total long term liabilities</u>	<u>1,178,043</u>	<u>818,639</u>
<u>Total liabilities</u>	<u>3,565,689</u>	<u>2,829,045</u>
SHAREHOLDERS' DEFICIENCY:		
Common shares - \$0.0001 par value; 500,000,000 shares authorized at June 30, 2009 and December 31, 2008; 117,754,028 and 106,728,195 shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively	11,775	10,672
Additional paid-in capital	29,606,783	28,968,015
Receipts on account of shares	-	150,000
Deficit accumulated during the development stage	(32,405,193)	(30,176,288)
<u>Total shareholders' deficiency</u>	<u>(2,786,635)</u>	<u>(1,047,601)</u>
<u>Total liabilities and shareholders' deficiency</u>	<u>\$ 779,054</u>	<u>\$ 1,781,444</u>

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

	<u>Six months ended June 30,</u>		<u>Year ended</u>	<u>From date of</u>
	<u>2009</u>	<u>2008</u>	<u>December 31,</u>	<u>inception</u>
	<u>2009</u>	<u>2008</u>	<u>2008</u>	<u>(January 27,</u>
	<u>Unaudited</u>			<u>2000) through</u>
				<u>June 30</u>
				<u>2009</u>
				<u>Unaudited</u>
Research and development expenses	\$ 1,282,669	\$ 1,632,531	\$ 3,435,538	\$ 20,010,032
Less – Participation by the Office of the Chief Scientist	(292,893)	-	(1,336,446)	(3,532,600)
Research and development expenses, net	989,776	1,632,531	2,099,092	16,477,432
General and administrative expenses	1,198,690	1,388,281	2,761,008	15,349,557
Loss from disposal of property and equipment	-	-	-	325,842
Operating loss	2,188,466	3,020,812	4,860,100	32,152,831
Financial (income) expenses, net	37,247	(51,343)	(11,457)	609,328
Loss before taxes on income	2,225,713	2,969,469	4,848,643	32,762,159
Taxes on income	-	1,839	3,615	70,294
Net loss	2,225,713	2,971,308	4,852,258	32,832,453
Dividend in respect of reduction in exercise price of certain warrants	3,192	-	6,745	9,937
Net loss attributable to common shareholders	<u>\$ 2,228,905</u>	<u>\$ 2,971,308</u>	<u>\$ 4,859,003</u>	<u>\$ 32,842,390</u>
Basic and diluted net loss per share	<u>\$ 0.02</u>	<u>\$ 0.03</u>	<u>\$ 0.05</u>	
Weighted average number of shares used in per share calculation	<u>111,249,104</u>	<u>106,204,484</u>	<u>106,447,604</u>	

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

In US Dollars (except for share data)

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

In US Dollars (except for share data)

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

In US Dollars (except for share data)

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

In US Dollars (except for share data)

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

In US Dollars (except for share data)

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

In US Dollars (except for share data)

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

In US Dollars (except for share data)

	Common shares		Additional Paid-in Capital	Receipts on account of shares	Deficit Accumulated During the Development Stage	Total Shareholders' Equity (Deficiency)
	Number of Shares	Amount				
Balance as of December 31, 2007	104,093,417	\$ 10,409	\$ 28,634,642	\$ -	\$(25,317,285)	\$ 3,327,766
Exercise of warrants in January 2008	2,462,050	246	(246)	-	-	-
Issuance of Common shares to consultant in April 2008	142,609	14	31,435	-	-	31,449
Exercise of warrants in December 2008	30,119	3	(3)	-	-	-
Stock based compensation expense related to options granted to consultants and employees	-	-	295,442	-	-	295,442
Receipts on account of shares in respect to exercise of warrants in January 2009	-	-	-	150,000	-	150,000
Dividend in respect of reduction in exercise price of certain warrants	-	-	6,745	-	(6,745)	-
Net loss	-	-	-	-	(4,852,258)	(4,852,258)
Balance as of December 31, 2008	<u>106,728,195</u>	<u>\$ 10,672</u>	<u>\$ 28,968,015</u>	<u>\$ 150,000</u>	<u>\$(30,176,288)</u>	<u>\$ (1,047,601)</u>

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

In US Dollars (except for share data)

	Common shares		Additional Paid-in Capital	Receipts on account of shares	Deficit Accumulated During the Development Stage	Total Shareholders' Equity (Deficiency)
	Number of Shares	Amount				
Balance as of December 31, 2008	106,728,195	\$ 10,672	\$ 28,968,015	\$ 150,000	\$(30,176,288)	\$ (1,047,601)
Exercise of warrants	11,025,833	1,103	404,902	(150,000)	-	256,005
Stock based compensation expense related to options granted to consultants and employees	-	-	230,674	-	-	230,674
Dividend in respect of reduction in exercise price of certain warrants	-	-	3,192	-	(3,192)	-
Net loss	-	-	-	-	(2,225,713)	(2,225,713)
Balance as of June 30, 2009 (Unaudited)	<u>117,754,028</u>	<u>\$ 11,775</u>	<u>\$ 29,606,783</u>	<u>\$ -</u>	<u>\$(32,405,193)</u>	<u>\$(2,786,635)</u>

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
	2009	2008	2008	2009
	Unaudited			Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	\$ (2,225,713)	\$(2,971,308)	\$ (4,852,258)	\$(32,832,453)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation	60,250	36,912	96,497	804,214
Exchange differences on long term loan	-	-	-	2,950
Loss from disposal of property and equipment	-	-	-	325,842
Interest on Convertible debentures	8,130	-	-	8,130
Issuance of shares in consideration for providing security for letter of credit	-	-	-	15,748
Stock based compensation related to options and warrants granted to consultants and employees	230,674	219,345	295,442	4,501,697
Interest and amortization of beneficial conversion feature of convertible note	-	-	-	759,197
Purchase of short-term investment, net	-	(47,278)	-	(47,278)
Gain from short term investment	-	(53,690)	-	(53,690)
Capital loss	2,859	-	-	2,859
Accrued severance pay, net	54,312	120,314	77,035	701,903
Increase in trade payables	88,615	163,161	439,036	969,525
Decrease (increase) in other accounts receivable and pre-paid expenses	5,469	(39,893)	261,354	(116,325)
Increase in other accounts payable and accrued expenses	329,230	212,494	564,055	1,493,764
Net cash used in operating activities	(1,446,174)	(2,359,943)	(3,118,839)	(23,362,949)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from disposal of property and equipment	-	-	-	172,869
Increase in prepaid lease payments	-	-	(10,939)	(22,443)
Decrease (increase) in restricted lease deposit	175	-	(22,607)	(22,432)
Purchase of property and equipment	(24,260)	(363,607)	(371,622)	(1,659,017)
Net cash used in investing activities	(24,085)	(363,607)	(72,991)	(1,531,023)

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
	2009	2008	2008	2009
	Unaudited			Unaudited
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from issuance of shares, net	-	-	(309,741)	21,669,890
Exercise of Warrants	256,005	-	-	256,005
Repayment of issuance expenses	-	(309,741)	-	(309,741)
Repayment of long-term loan	-	-	-	(73,080)
Proceeds from long term loan	-	-	-	70,130
Receipts on account of shares	-	-	150,000	150,000
Proceeds from Convertible Note	265,000	-	-	2,862,225
Increase (decrease) in short-term bank credit	(40,605)	(9,714)	43,172	12,281
Net cash provided by (used in) financing activities	480,400	(319,455)	(116,569)	24,947,451
Increase (decrease) in cash and cash equivalents	(989,859)	(3,043,005)	(3,640,576)	53,479
Balance of cash and cash equivalents at the beginning of the period	1,043,338	4,683,914	4,683,914	-
Balance of cash and cash equivalents at the end of the period	\$ 53,479	\$ 1,640,909	\$ 1,043,338	\$ 53,479

Supplemental disclosure of cash flow information:				
Cash paid during the period for:				
Interest	\$ (35)	\$ (7,145)	\$ 833	\$ (45,571)
Taxes	\$ 3,660	\$ (1,839)	\$ 12,420	\$ (57,982)
Supplemental disclosure of non cash flow information:				
Accrued issuance expenses	\$ -	\$ -	\$ -	\$ (460,739)
Issuance of Common shares upon conversion of a Convertible Note	\$ -	\$ -	\$ -	\$ 2,845,072
Issuance of shares in settlement of debt	\$ -	\$ -	\$ -	\$ 96,016
Issuance cost due to obligation to issue Common shares to consultant	\$ -	\$ -	\$ (31,449)	\$ (31,449)
Issuance of Common shares to consultant	\$ -	\$ 31,449	\$ -	\$ 31,449
Purchase of property and equipment	\$ -	\$ -	\$ 8,092	\$ 17,243
Issuance of common shares upon conversion of a warrants	\$ 150,000	\$ -	\$ -	\$ 150,000

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 Common shares were admitted for trading on the London Stock Exchange's Alternative Investment Market (AIM).

- 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's operations for the six months ended on June 30, 2009, resulted in a net loss of \$ 2,228,905 and the Company's balance sheet reflects a net shareholders' deficiency of \$ 2,786,635, accumulated deficit of \$ 32,405,193 and a working capital deficiency of \$ 2,217,841.

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 in this regard include, among others, seeking additional capital 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In US Dollars

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the annual financial statements as of December 31, 2008 are applied consistently in these financial statements.

Recently issued Accounting Standards:

FSP FAS 157-4:

In April 2009 the FASB issued FASB staff position 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly". This FSP applies to all assets and liabilities within the scope of accounting pronouncements that require or permit fair value measurements, except as discussed in paragraphs 2 and 3 of statement 157. The FSP is Effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively.

FSP FAS 157-4 relates to determining fair values when there is no active market or where the price inputs being used represent distressed sales. It reaffirms what Statement 157 states is the objective of fair value measurement—to reflect how much an asset would be sold for in an orderly transaction (as opposed to a distressed or forced transaction) at the date of the financial statements under current market conditions. Specifically, it reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive.

FSP FAS 157-4 provides guidance on (1) estimating the fair value of an asset or liability (financial and nonfinancial) when the volume and level of activity for the asset or liability have significantly decreased and (2) identifying transactions that are not orderly. The adoption of this standard did not have any impact on the consolidated results of operations or financial position of the Company.

SFAS 165:

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" ("SFAS No. 165"). SFAS No. 165 establishes general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, this statement sets forth: (1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and (3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS No. 165 is effective for the interim or annual financial periods ending after June 15, 2009. The adoption of this standard did not have any impact on the consolidated results of operations or financial position of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In US Dollars

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

SFAS 166:

In June 2009 the FASB issued SFAS No.166 "Accounting for Transfers of Financial Assets" ("SAFS No. 166"). SAFS No. 166 is a revision to Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, and will require more information about transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures. SFAS No. 166 enhances information reported to users of financial statements by providing greater transparency about transfers of financial assets and a company's continuing involvement in transferred financial assets. SFAS No. 166 will be effective at the start of a company's first fiscal year beginning after November 15, 2009. The Company is currently examining this new standard; the adoption of this standard is not expected to have a material impact on the Company's condensed consolidated financial statements.

NOTE 3:- 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, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

NOTE 4:- SHAREHOLDERS' EQUITY

Issuance of shares:

Pursuant to Note 10d (25) to the Company's annual report regarding the Warrant Repricing Program of the Company to encourage existing warrant holders to exercise their warrants, during January and February 2009, 11,025,833 warrants were exercised into 11,025,833 Common shares of the Company in consideration for a reduced price of \$ 406,048 and issuance of 1,218,144 new warrants as a bonus. The bonus warrants are exercisable immediately for a period of three years from the issuance date at an exercise price of \$0.25 per share. The consideration was paid partly in the year ended December 31, 2008 (\$ 150,000) and the balance was paid in 2009. The benefit resulting to the warrant holders from the reduction of the exercise price and the bonus warrants in the amount of \$6,745 and \$3,192 as of December 31, 2008 and June 30, 2009, respectively, was recorded as a preferred dividend to the warrant holders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In US Dollars

NOTE 5:- CONVERTIBLE DEBENTURES

Commencing May 2009, the Company offered to accredited investors only, in a private placement, convertible debentures in multiples of \$50,000 each (the "Debentures"), together with warrants (the "Warrants") to purchase a number of Common shares, par value \$0.0001 per share, of the Company, equal to 35% of the number of shares of Common shares issued upon conversion of the Debentures. The Debentures issued in the private placement will mature two years after the date of issuance. The Debentures will automatically be converted into Common shares upon the closing of a Qualified Transaction, as defined in the Securities Purchase Agreement entered into by the Company in connection with the private placement.

On June 16, 2009, the Company closed the first series of the private placement. The Company announced at that date, that it has raised \$265,000 in gross proceeds through the issuance of Debentures.

The Debentures bear interest at a rate of 10% per annum. Interest will accrue on the Debentures quarterly from the date of issue and shall be paid on a quarterly basis. In the event of default, the interest rate shall increase 2% per month for every month the Debentures are in default to a maximum of 18% per annum. The Company shall repay the principal and any accrued interest at the two-year anniversary of the date the Debentures were issued. The Debentures are unsecured and the Company has no right to redeem the Debentures. If the Company is liquidated, the holders of the Debentures will participate pari passu with all general creditors of the Company with no seniority or preference. The interest due on June 30, 2009 has been paid.

Until such time the Debentures are repaid, the Debentures (including any accrued interest) shall automatically convert into Common shares at the closing of a Qualified Transaction at the following valuation:

- In the event that the per share price paid in the Qualified Transaction (or per share value of merger consideration in a merger transaction) (the "**Qualified Transaction Price**") is \$0.12 per share or greater, the conversion price shall be the lesser of \$0.12 per share or a 40% discount from the Qualified Transaction Price.
- In the event that the Qualified Transaction Price is at least \$0.07 but less than \$0.12 per share, the conversion price shall be \$0.07 per share.
- In the event that the Qualified Transaction Price is less than \$0.07 per share, the conversion price shall be the Qualified Transaction Price; provided, however, that the holder of the Debenture shall receive 100% more Warrants than such holder would have otherwise been entitled to receive upon conversion.

The share prices referenced above shall be adjusted to reflect any stock splits, stock combinations, stock dividends, reorganizations and the like.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In US Dollars

NOTE 5:- CONVERTIBLE DEBENTURES (CONT.)

The Warrants exercisable for a number of shares of Common Stock equal to 35% of the number of shares which will be issued upon conversion of the Debentures are for Common Stock. Warrants shall not be issued unless and until the conversion of the Debentures. The Warrants shall be immediately exercisable upon issuance and shall expire five years from the date of issuance. The exercise price shall be 110% of the Qualified Transaction Price.

The Company irrevocably elected to initially and subsequently measure the Debentures entirely at fair value (with changes in fair value recognized in earnings) in accordance with par. 16 of SFAS 133 (as amended by SFAS 155), thus the Company will not separate the embedded derivative instrument from the host contract and account for it as a derivative instrument pursuant to SFAS 133.

This election was made only in respect to the Debentures, as permitted by SFAS 155, which states that this election may be made on an instrument-by-instrument basis.

Subsequent to the balance sheet date, and in conjunction with this private placement, the Company issued additional Debentures for gross proceeds of \$ 305,000 under the same terms.