

Press Information

AOI Medical, Inc.

("AOI" or "the Company")

Final Results

London, UK, 24 June 2009 - [AOI Medical, Inc.](#), ("AOI" or "the Company") (AIM: AOI), a medical device company focusing on innovative orthopaedic medical devices for the spine and trauma markets, has released final results for the year ended 31 December 2008.

Highlights

- FDA granted AOI approval to commence a 60 patient clinical trial for Ascendx™ VCF Reduction System (treatment for Vertebral Compression Fractures) in March 2008
- Clinical trial for Ascendx™ commenced in June 2008
- Today AOI is pleased to announce it has successfully completed surgical procedures on 44 patients
- As of today, of the 44 patients treated, 9 were treated in June 2009
- Cash and cash equivalents as of 31 December 2008 were \$3.7 million

Bill Christy, CEO of AOI said:

"AOI continued to make great strides in 2008. We are encouraged by the results we have witnessed through the Ascendx™ clinical trial and the feedback from our physicians. We will continue to invest the majority of our capital and resources to driving Ascendx™ towards a commercial launch. With the addition of the seventh site, we have gained momentum with the clinical trial as evidenced by the 9 cases performed to-date in June 2009. The Ascendx™ clinical trial progress remains on track with planned regulatory filing with the FDA later this year, and we anticipate market launch in Q1 2010."

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Overview

2008 was an important year in AOI's development. On 12 March 2008, AOI received final approval from the FDA to commence a clinical trial for Ascendx™. This 60 patient clinical trial was designed to evaluate the safety and efficacy of Ascendx™, with the primary end point being acute procedural success defined as successful device deployment, cement delivery, and device withdrawal. The clinical trial commenced in June 2008, with the first three patients meeting acute procedural success criteria demanded by protocol and trial progress consistent with planned regulatory filing with the FDA.

The clinical trial has continued apace in the months since, with the Company announcing on 31 March 2009, the successful completion of surgical procedures on 30 patients at six sites across the United States. AOI has now successfully completed surgical procedures on 44 patients at seven sites across the United States. An adverse event occurred in one case, which was not a result of the failure of the Ascendx™ product. Thus far, physician feedback has been extremely encouraging; however, clinical outcomes are still being evaluated.

The study will ultimately involve 60 subjects in eight centers across the United States. The clinical trial is expected to complete its last patient enrollment in H2 2009, with data from the trial used as clinical support for the Company's 510(k) submission to the FDA. AOI believes that the market launch of Ascendx™ in the United States will take place in Q1 2010.

In 2008 the Company has continued to build its estate of intellectual property ("IP") for other technology platforms, expanding its robust IP portfolio with three new patent application submissions. In addition to its lead product, Ascendx™. AOI is also developing two other orthopaedic products: BAMF Trauma, a fracture reduction device used for the stabilization of fractures and Cervical Plate, a flexible artificial ligament for use in combination with motion-preserving alternatives to fusion of the cervical vertebrae. While the Company has recently redirected resources from these products to help drive the commercial launch of Ascendx™, we believe that they provide future growth opportunities for AOI.

Ascendx™ VCF Reduction System ("Ascendx™")

Ascendx™ is a set of tools designed to treat vertebral compression fractures of the spine caused by osteoporosis, trauma or cancer. Ascendx™ is comprised of two main instruments: a cutting device that creates a cavity in the cancellous bone, and an expandable fracture reduction device that is used to restore height to the fractured vertebra and delivers and controls the medical grade bone cement (generally polymethylmethacrylate, commonly known as "PMMA") in the cavity.

AOI received final approval from the FDA on 12 March 2008, to commence a clinical trial for its lead product, Ascendx™. The clinical trial for Ascendx™ commenced in June 2008. AOI announced the successful completion of surgical procedures on ten patients with the Ascendx™ system in October 2008, 30 patients in March 2009, and today announces the successful completion of surgical procedures on 44 patients. An adverse event occurred in one case, which was not a result of the failure of the Ascendx™ product. The Company is on track to complete the clinical trial in H2 2009 and expects FDA approval also in H2 2009 with commercialization to follow in Q1 2010.

Ascendx™ presents an attractive market opportunity. The total worldwide spinal and trauma device market is estimated to be \$7.8 billion, a figure expected to grow 18% annually to \$12.2 billion by 2012. Treatment of Vertebral Compression Fractures (VCF), or collapse of a vertebra due to trauma, osteoporosis, or benign and/or malignant lesions, represents a significant share of that figure, some \$570 million in 2007 sales, or 7.3% of the total market.

BAMF Trauma (Balloon Assisted Management of Trauma Fractures)

BAMF Trauma (Balloon Assisted Management of Trauma Fractures) is a removable, inflatable fracture reduction device used for the stabilization of fractures across various indications. In terms of indications, AOI will initially concentrate on the upper extremities, and in the medium term, other the long bones of the legs. AOI's BAMF Trauma differs from the metal rods (commonly referred to as "nails" in the industry) currently on the market in that it is composed of a medical grade stainless steel rod inside a balloon.

AOI's BAMF Trauma product has passed Phase I pilot efficacy trial and has returned initial histology verifying no adverse reactions to the implant, demonstrating that the device is well tolerated. The information gained from this pilot study has allowed us to advance development toward Phase II functional prototypes.

AOI believes that BAMF Trauma will have a technological advantage over existing products in the market because it will potentially: require a smaller gauge at the point of insertion; provide a firm structure; adapt to the bone cavity while in place (internal fixation); and is intended to be easily removed. This last feature should make the device particularly compelling for treatment of pediatric patients, for whom growth in the affected limb can be impaired if a stabilization device is permanently implanted.

Sales of intramedullary rods represent a target market for AOI of over \$900 million in 2009, as estimated by Frost and Sullivan

In the near term, while the Company is managing its capital, it is focusing substantially all of its research and development efforts on its lead product, Ascendx™. While the Company has recently redirected its resources from this product, we believe that it provides future growth opportunities for AOI. Currently, AOI anticipates seeking FDA approval in Q4 2013.

Cervical Plate (Motion Preserving Cervical Dynamic Stabilization Plate)

The Cervical Plate (Motion Preserving Cervical Dynamic Stabilization Plate) is an anterior, semi-constrained artificial ligament (i.e., joins bone to bone) providing translational and rotational stabilization at the site of an intervertebral graft, implant or prosthesis following a cervical spine surgery. The current practice for severe intractable disc disease is spinal fusion, with the failure rate after lumbar fusion being reported to be as high as 40 - 50 percent (source: www.Spine-Health.com August 2007).

The Company is planning to obtain FDA approval through a 510(k) submission with supportive clinical data and will apply for an IDE based upon range of motion data. Clinical study data will be collected by testing the Cervical Plate in combination with a motion preserving disc or nucleus replacement device. Further discussions with the FDA will be necessary to confirm the study design, requirements and timing.

The current market in the U.S. for a cervical plate featuring dynamic stabilization is estimated at \$410 million and is forecast to grow to almost \$500 million by the end of 2009 (source: Bank of America LLC, 15 February 2008 and AOI internal pricing estimates).

In the near term, while the Company is managing its capital, it is focusing substantially all of its research and development efforts on its lead product, Ascendx™. While the Company has recently redirected its resources from this product, we believe that it provides future growth opportunities for AOI. Currently, AOI anticipates seeking FDA approval in Q4 2013.

Intellectual Property (Patent) Protection

In 2008 the Company has continued to build its estate of intellectual property ("IP") for other technology platforms, expanding its robust IP portfolio with three new patent application submissions. In addition to its lead product, Ascendx™. AOI is also developing two other orthopaedic products: BAMF Trauma, a fracture reduction device used for the stabilization of fractures and Cervical Plate, a flexible artificial ligament for use in combination with motion-preserving alternatives to fusion of the cervical vertebrae. While the Company has recently redirected resources from these products to help drive the commercial launch of Ascendx™, we believe that they provide future growth opportunities for AOI.

Marketing and Commercialization

AOI intends to focus its sales efforts for Ascendx™ on our clinical advisory board physicians. This targeted product release represents a significant sales opportunity for AOI. With our relationships with the clinical advisory board physicians strengthened through our clinical progress, we plan on utilizing independent sales distributors on a commission basis, as needed. We believe our U.S.-targeted commercial product release is an efficient use of capital to gain market share. In addition to our targeted distribution strategy, we intend to enlist a large healthcare company as a U.S. co-marketing partner, to broaden the scope and effectiveness of our marketing and distribution initiatives worldwide.

Going concern

The Directors regularly monitor the ability of the Company to ensure it has adequate resources to continue in business for the foreseeable future. The Directors adopt the going concern basis in preparing the financial statements, if appropriate. Upon review of the financial information and resources as of 31 December 2008, the Directors have identified a potential shortfall in relation to the Company's ability to meet the cash requirements beyond 2009. The Board has reviewed the Company's forecast and related assumptions of the timing of the completion of the submission of Ascendx™ clinical trial data to the FDA, the timing of the FDA review and the potential commercial launch of Ascendx™ during Q1 2010. In

addition, the Directors are taking steps to raise additional capital. Based on these factors, the Directors believe this gives the Company the prospect of continuing in business for the foreseeable future and therefore have continued to adopt the going concern basis in the preparation of the financial statements. The financial information does not include any adjustments that might result if the Directors are unsuccessful with putting these measures in place.

Possible fundraise

After AOI's successful flotation on AIM in June 2007, we recognized that the Company would require additional capital. On 30 April 2008, the Company announced that it felt it would be prudent to position itself to raise additional capital through the issue of further common shares or convertible securities in excess of the existing issuance authorities of the Company. This issuance was approved by the shareholders of the Company on 15 May 2008 to support the Company's corporate goals and future capital raise efforts.

The Company is currently in discussions with its advisers in relation to the precise nature and timing of any capital raise; however, in deciding the final form of any such capital raise, the Directors will have regard to the best interests of the shareholders of the Company. In the meantime, management's deployment of capital has been judicious and has extended the timing of the necessity of securing additional capital to the second half of 2009.

Outlook

AOI continued to make powerful strides in 2008 and the Company is encouraged by the results it has witnessed through the Ascendx™ clinical trial and the feedback from our physicians. We believe we are well on our way to achieving our goal of providing the next generation of care to better patients' quality of life. AOI will continue to invest the majority of its capital and resources towards a commercial launch of Ascendx™. We see the clinical data, FDA clearance and subsequent commercialization to be major value drivers for the Company. An aging population and decreased acceptance of current techniques enhance the opportunity for AOI. We believe the Company is well placed to take advantage of these trends.

About AOI Medical, Inc.

AOI is a medical device company focusing on the development and commercialization of innovative orthopaedic medical devices for the spine and trauma markets. It is progressing the development of three separate technology platforms: Ascendx™ VCF Reduction System, BAMF Trauma and Cervical Plate. Further information can be found at www.aoimedical.net.

FINANCIAL REVIEW

INCOME STATEMENT

Revenue

AOI is an early stage medical device company and as such currently has not yet derived revenue from principal operations. Revenues of \$47,000 were earned in 2008 solely from the Food and Drug Administration approved clinical trial for Ascendx™, the Company's lead product.

Expenses

Operating expenses increased by \$1.3 million to \$6.1 million versus the twelve months ended 31 December 2007 \$4.8 million.

Total research and development ("R&D") expenditures increased over the prior year from \$1.6 million to \$2.5 million. This reflected increased investment in the development of its product platforms, including clinical trial activities for the lead product, Ascendx™. Of the total increase, clinical trial expenditures account for \$0.7 million with compensation, employee benefits and travel expenses accounting for the remaining \$0.2 million.

Sales and marketing costs were \$785,000 (2007: \$607,000), largely due to an increase in professional fees related to public relations. These fees were incurred as a result of being a public company for all of 2008 compared to six months in 2007. Sales and marketing costs are expected to grow in 2009 as the Company prepares for the commercial launch of Ascendx™, subject to FDA approval.

Administrative expenses were \$2.6 million (2007: \$2.5 million). Of this, compensation, employee benefits and travel expenses account for \$1.4 million (2007: \$1.6 million), a decrease of \$0.2 million. This reflects a decrease in salaries of \$0.4 million offset by an increase in stock option compensation expense, a non-cash item, of \$0.2 million. The remaining net increase in other administrative expenses reflects increased compliance related expenditures as a result of being a public company including legal fees, accounting fees and annual report expenses as well as an increase in depreciation expense as a result of the acquisition of property and equipment during the last two years.

Net other income was approximately \$8,000 (2007: \$298,000) related to interest income earned net of realized loss on the sale of fixed income trading securities. During 2007, interest income of \$318,000 and an unrealized gain on trading securities of \$45,000 were partially offset by interest expense of \$65,000. No interest expense was incurred in 2008 as all outstanding debt converted into common shares upon the Company's IPO on AIM in June 2007.

BALANCE SHEET

Cash and cash equivalents

The Company had cash and cash equivalents of \$3.7 million at 31 December 2008 compared with \$3.4 million at 31 December 2007. The increase in cash and cash equivalents is a result of net cash provided by operating activities of \$1.4 million largely due to the sale of Investments of \$6.9 million with the net proceeds deposited into operating cash. As of 31 December 2008, nil cash had been collected from the clinical trial and was reflected in accounts receivable. The increase in net cash provided by operating activities was partially offset by net cash used in investing and financing activities of \$0.4 million and \$0.6 million, respectively.

Other current assets

The Company had other current assets of \$1.3 million at 31 December 2008 compared with \$7.3 million at 31 December 2007. At 31 December 2008 other current assets consist primarily of inventory of \$0.5 million and deferred charges of \$0.7. At 31 December 2007 other current assets consist primarily of investments of \$7.0 million and prepaid expenses of \$0.2 million. The decrease in investments reflects the sale of fixed income trading securities subsequent to 31 December 2007, with the proceeds transferred to accounts classified as cash and cash equivalents at 31 December 2008. Deferred charges at 31 December 2008 are costs incurred related to the Company's potential capital raise.

Property and equipment, net

Property and equipment, net increased to \$592,000 (2007: \$539,000). Of this net increase, \$235,000 reflects the purchase of tooling, machinery and equipment needed for research and development and production efforts, offset by current year depreciation.

Intangible Assets, net

Intangible Assets, net is comprised of capitalized patent costs of \$164,000 (2007: \$112,000) and capitalized license costs of \$387,000 (2007: \$290,000), net of accumulated amortization of \$60,000 (2007: \$33,000). The \$52,000 increase in capitalized patent costs is related to the Company's patent portfolio. The increase in capitalized license costs over 2007 largely reflects payments of \$51,000 in cash and the grant of options to purchase up to 13,242 shares of common stock in accordance with the achievement of certain milestones. The fair market value of these options on the grant date was \$41,060 and is a non-cash item.

Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses decreased to \$596,000 in 2008 from \$765,000 in 2007 largely due to payments subsequent to 31 December 2007 offset by an increase in accounts payable and other accrued expenses related to inventory, the potential capital raise and AscendxTM clinical trial costs.

Share capital

The Company had 8.4 million USD\$0.0001 ordinary shares outstanding at 31 December 2008 and 31 December 2007.

STATEMENTS OF OPERATIONS

Year ended 31 December

	Audited 2008 \$'000	Audited 2007 \$'000	Audited Cumulative Since Inception \$'000
Revenues	47	-	47
Cost of Sales	18	-	18
Gross Profit	29	-	29
Research and development	2,524	1,578	4,551
Operations	143	113	338
Sales and marketing	785	607	1,452
General and administrative	2,640	2,487	7,091
Total operating expenses	6,092	4,785	13,432
Operating loss	(6,063)	(4,785)	(13,403)
Other income (expense) net	8	298	(175)
Net loss and deficit accumulated during development stage	(6,055)	(4,487)	(13,578)
Net loss per share, basic and diluted – dollars	(0.72)	(0.63)	
Weighted average common shares outstanding basic and diluted	8,431,479	7,126,702	

Balance Sheets
Year ended 31 December

	Notes	Audited 2008 \$'000	Audited 2007 \$'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	1	3,696	3,358
Other current assets		1,341	7,260
Total current assets		<u>5,037</u>	<u>10,618</u>
Property and equipment, net		592	539
Intangible assets, net		554	402
Other assets		32	31
Total assets		<u>6,215</u>	<u>11,590</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable and accrued expenses		596	765
Total current liabilities		<u>596</u>	<u>765</u>
LONG-TERM LIABILITIES			
Deferred rent		36	47
Total long-term liabilities		<u>36</u>	<u>47</u>
Commitments (Notes 4 and 8)			
Stockholders' Equity:			
Preferred stock	3	-	-
Common stock	3	1	1
Additional paid-in capital	3	19,160	18,300
Deficit accumulated during development stage	3	(13,578)	(7,523)
Total stockholders' equity		<u>5,583</u>	<u>10,778</u>
Total liabilities and stockholders' equity		<u>6,215</u>	<u>11,590</u>

STATEMENTS OF CASH FLOWS

Year ended 31 December

	Audited 2008 \$'000	Audited 2007 \$'000	Audited Cumulative Since Inception \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	(6,055)	(4,487)	(13,578)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	230	68	332
Write off deferred charges and other costs	-	-	83
Loss on disposal of property and equipment	5	2	7
Loss on investments	171	-	173
Stock grants and options	781	436	1,267
Deferred compensation	38	251	290
Unrealized gain on investments	-	(45)	(45)
Changes in operating assets and liabilities:			
Sales (purchases) of investments	6,874	(7,000)	(126)
Inventory	(541)	-	(541)
Other current assets	68	(198)	(147)
Other assets	-	(15)	(18)
Accounts payable and accrued expenses	(188)	683	745
Deferred rent	(11)	47	36
Net cash provided by (used in) operating activities	1,372	(10,258)	(11,522)
CASH FLOWS FROM INVESTING ACTIVITIES			
Intangible assets	(141)	(125)	(576)
Purchase of property and equipment	(259)	(554)	(878)
Proceeds from disposition of property and equipment	-	13	13
Net cash used in investing activities	(400)	(666)	(1,441)
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowings on convertible promissory notes	-	-	1,400
Repayment of convertible promissory note	-	(25)	(25)
Issuance of stock, net	-	13,416	16,001
Payment for placement costs	-	-	(79)
Borrowings on note payable	-	-	79
Repayment of note payable	-	(66)	(79)
Increase in deferred charges	(634)	-	(634)
Increase in other assets	-	-	(4)
Net cash provided by (used in) financing activities	(634)	13,325	16,659
NET INCREASE IN CASH AND CASH EQUIVALENTS	338	2,401	3,696
Cash and cash equivalents, beginning of period	3,358	957	-
CASH AND CASH EQUIVALENTS, END OF PERIOD	3,696	3,358	3,696
Supplemental cash flow information:			
Cash paid during the year for interest	-	12	30
Cash paid during the year for taxes	-	-	-
Supplemental disclosure of non-cash activity:			
Issuance of stock options and warrants	41	452	496
Deferred charges unpaid at end of period	19	-	19
Conversion of convertible promissory notes and related accrued interest to common shares upon IPO	-	1,543	1,543

NOTES TO THE AUDITED FINAL RESULTS

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial information has been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Results for the periods ended 31 December 2008 and 2007 have been extracted from the audited financial statements.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable

Accounts receivable are stated at amounts management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Inventory

Inventory is stated at the lower of cost or market. The Company uses the average cost method of determining cost for its inventory.

Deferred Charges

Deferred charges represent costs incurred directly related to a capital raise, which would be offset against any proceeds raised.

During 2008 the Company incurred costs of approximately \$653,000 related to a potential capital raise. These costs are recorded as deferred charges as of December 31, 2008.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the related assets, ranging from two to seven years. Amortization of leasehold improvements is estimated on a straight-line basis over the estimated lives of the related asset or applicable lease term, if shorter. Repairs and maintenance are charged to operations as incurred, while significant improvements are capitalized. Long-lived assets held and used by the Company are reviewed for impairment whenever changes in circumstances indicate the carrying value of an asset may not be recoverable.

Research and Development

Expenditures for research and development are expensed as incurred.

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible Assets

Intangible assets for the years ended December 31, 2008 and 2007, consist of capitalized patent costs of \$163,589 and \$111,657, respectively, and capitalized license costs of \$387,023 and \$290,091, respectively, net of accumulated amortization of \$59,706 and \$32,513, respectively. Amortization of existing capitalized license costs for each of the next five years will be approximately \$32,700, with approximately \$223,700 of amortization to be recorded thereafter.

The Company records the acquisition and amortization of license and patent costs in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*. License costs include payments to the licensor, grants of options to purchase shares of common stock, and legal costs incurred to obtain certain license agreements. Costs to obtain the licenses are capitalized as incurred per the license agreements. The Company amortizes capitalized license costs over the estimated useful lives ranging from 14 to 15 years.

Patent costs include legal costs incurred in the pursuit of acquiring a patent including various patent applications and filing fees. Once a patent is granted, the Company will amortize the capitalized patent costs over the remaining life of the patent using the straight-line method. If the patent is not granted, the Company will write-off any capitalized patent costs at that time. There was no amortization expense relating to patents for the years ended December 31, 2008 and 2007, because no Company owned patents have been granted.

The Company reviews license and patent costs for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Internal and external facts and circumstances are considered for indication of the ability to recover the carrying value of the unamortized license costs and patent costs. For the years ended December 31, 2008 and 2007, the Company had no impairment on its unamortized license and patent costs.

Investments

Management determines the classification of their investments upon acquisition, based upon the purpose for which the investments were acquired, and reevaluates this designation at each reporting date. Investments include trading securities. Such investments are accounted for under SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Unrealized gains and losses are charged to operations and the investment is carried at its new basis. The Company recorded a realized loss on investments of \$171,005 in 2008 and an unrealized gain on investments of \$45,324 in 2007.

Net Loss Per Share

The Company computes net loss per share in accordance with SFAS No. 128, *Earnings Per Share*. SFAS No. 128 provides for the calculation of basic and diluted earnings per share. Basic earnings per share includes no dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution of securities that could share in the earnings of the Company. The impact of stock options was anti-dilutive, therefore basic and diluted net loss per share are the same. All options, warrants, and convertible debt were excluded for the year ended December 31, 2008 and 2007, due to the Company's net loss.

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Values of Financial Instruments

In accordance with the reporting requirements of SFAS No. 107, *Disclosures About Fair Value of Financial Instruments*, the Company calculates the fair value of its assets and liabilities which qualify as financial instruments under this statement and includes this additional information in the notes to financial statements when the fair value is different than the carrying value of those financial instruments. The estimated fair value of cash equivalents and accounts payable approximate the carrying amounts due to the relatively short maturity of these instruments. None of these instruments are held for trading purposes.

Revenue Recognition

Revenue is realized and earned when all of the following criteria are met: persuasive evidence of a sales arrangement exists; delivery has occurred and the product has been used; the price is fixed or determinable; and collectibility is reasonably assured. Revenues of \$46,680 were earned in 2008 solely from the Food and Drug Administration approved clinical trial for AscendxTM, the Company's lead product.

Income Taxes

Deferred income taxes are determined using the asset and liability method in accordance with SFAS No. 109, *Accounting for Income Taxes*. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. In addition, a valuation allowance is established to reduce any deferred tax asset for which it is determined that it is more likely than not that some portion of the deferred tax asset will not be realized (see Note 9).

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Stock-Based Compensation

On January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123(R), *Share-Based Payment* ("SFAS 123R"). Prior to January 1, 2006, the Company accounted for share-based payments under the recognition and measurement provisions of Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"), and related interpretations, as permitted by SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"). In accordance with APB 25, no compensation cost was required to be recognized for options granted that had an exercise price equal to the market value of the underlying common stock on the date of grant.

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company adopted SFAS 123R using the modified prospective application method. Under this method, compensation cost recognized for the years ended December 31, 2008 and 2007, includes: compensation cost for all share-based payments granted prior to, but not yet vested, as of January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123. In addition, deferred stock compensation related to non-vested options is required to be eliminated against additional paid-in capital upon adoption of SFAS 123R.

Accounting for the Issuance of Debt with Warrants

The Company accounts for debt issued with warrants under the provisions of APB Opinion No. 14, *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants* ("APB 14") as a result of the issuance of a debt security with warrants. In accordance with APB 14, the portion of the proceeds of debt issued with detachable warrants that is allocable to the warrants shall be accounted for as additional paid-in capital. The allocation is based on the relative fair values of the two securities at time of issuance. The resulting discount on the debt securities is amortized over the term of the debt instrument and recorded as interest expense. Upon the Company's IPO in June 2007 and the subsequent conversion of the notes into common stock, the unamortized balance of the discount was recorded as interest expense. No debt has been issued as of December 31, 2008.

Recent Accounting Pronouncements

In July 2006 the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). This interpretation, among other things, creates a two-step approach for evaluating uncertain tax positions. Recognition (step one) occurs when an enterprise concludes that a tax position, based solely on its technical merits, is more likely than not to be sustained upon examination. Measurement (step two) determines the amount of benefit that more likely than not will be realized upon settlement. Derecognition of a tax position that was previously recognized would occur when a company subsequently determines that a tax position no longer meets the more likely than not threshold of being sustained. FIN 48 specifically prohibits the use of a valuation allowance as a substitute for derecognition of tax positions, and it has expanded disclosure requirements. FIN 48 is effective for fiscal years beginning after December 15, 2008, in which the impact of adoption should be accounted for as a cumulative-effect adjustment to the beginning balance of retained earnings. The Company is evaluating FIN 48 and has not yet determined the impact the adoption will have on its financial statements.

In September 2006 the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"), which defines fair value as the price that would be received to sell an asset or that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 establishes a framework for measuring fair value and expands disclosures about fair value measurements. The requirements of SFAS 157 became effective for the Company's fiscal year 2008. However, in February 2008 the FASB decided that an entity need not apply this standard to nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis until the subsequent year. Accordingly, the Company's adoption of this standard on January 1, 2008, was limited to financial assets and liabilities. The financial assets and liabilities as reported in the Company's financial statements approximate their respective fair value. The Company is in the process of evaluating this standard with respect to its effect on nonfinancial assets and liabilities and therefore has not yet determined the impact that it will have on the Company's financial statements upon full adoption.

NOTE 2 GOING CONCERN

The accompanying financial statements have been prepared on a basis of accounting assuming that it is a going concern, which contemplates realization of assets and satisfaction of liabilities in the normal course of business. The Company lacks operating capital and has reported a net loss of \$6,055,550 and \$4,487,325 for 2008 and 2007, respectively, which raises substantial doubt about its ability to continue as a going concern.

The Company plans to raise additional capital in 2009. In addition, the Company is developing products to meet its current and ongoing obligations. Continued existence of the Company is dependent on the Company's ability to generate revenue and obtain adequate funding. The financial statements do not include adjustments that might result from the outcome of this uncertainty.

NOTE 3 RECONCILIATION OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)

Year ended 31 December

	Preferred Stock		Common Stock		Additional	Accumulated	Total
	Shares	Amount	Shares	Amount	Paid-In	Deficit	Stockholders'
	'000	\$'000	'000	\$'000	Capital	\$'000	Equity (Deficit)
					\$'000		\$'000
BALANCE, DECEMBER 31, 2006	121	.01	5,441	.54	2,654	(3,036)	(381)
Sale of common stock, net	-	-	2,554	.25	12,964	-	12,964
Conversion of preferred stock to common shares upon IPO	(121)	(.01)	121	.01	-	-	-
Conversion of convertible debt to common shares upon IPO	-	-	307	.03	1,543	-	1,543
Issuance and exercise of warrants and stock-based compensation	-	-	8	.01	887	-	887
Deferred compensation	-	-	-	-	252	-	252
Net loss	-	-	-	-	-	(4,487)	(4,487)
BALANCE, DECEMBER 31, 2007	-	-	8,431	.84	18,300	(7,523)	10,778
Exercise of warrants and stock-based compensation	-	-	5	.01	822	-	822
Deferred compensation	-	-	-	-	38	-	38
Net loss	-	-	-	-	-	(6,055)	(6,055)
BALANCE, DECEMBER 31, 2008	-	-	8,436	.85	19,160	(13,578)	5,583

NOTE 4 COMMITMENTS

During 2007 the Company entered into a lease agreement for a period of three years for office space which commenced October 1, 2007, when the Company had physical control over the property. For the first year of the lease agreement, the Company was required to pay \$17,006 per month in rent, as defined in the lease to include base rent, operating expenses, and applicable sales tax. The terms of the lease include annual base rent increases of 3.5% upon each anniversary of the commencement date and allow for increases to the operating expenses. The Company has the option to renew the lease upon expiration for an additional three-year term. The lease granted the Company \$40,000 of free rent and a leasehold improvement allowance of \$10,000. The Company was also required to pay the landlord a refundable security deposit of \$16,000. The Company records monthly rent expense of \$16,555, as calculated on a straight-line basis, net of free rent. The difference between the cash payment and the straight-line rent expense is charged to deferred rent. The leasehold improvement allowance was recorded to deferred lease incentive, a component of deferred rent, and is amortized over the life of the lease as a reduction to rental expense of approximately \$278 per month.

Total rental expense for 2008 and 2007 was approximately \$195,000 and \$84,000, net of deferred lease incentive amortization of approximately \$3,300 and \$800, respectively.

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of December 31, 2008, are summarized as follows:

Year Ending December 31,	Total
2009	\$ 197,400
2010	166,000
2011	-
2012	-
2013	-
Thereafter	-
	<u>\$ 363,400</u>

NOTE 5 CAPITAL STRUCTURE

The Company's capital structure is as follows at December 31, 2008:

Type	Par Value	Authorized	Issued and Outstanding
Preferred	\$ 0.0001	10,000,000	-
Common	\$ 0.0001	50,000,000	8,436,489

The Company designated 400,000 shares of preferred stock as Series A Convertible Preferred Stock. Each share was convertible into one share of common stock and was entitled to vote with common stock on an as converted basis. These shares were originally entitled to pre-emptive rights with respect to the issuance of any new securities by the Company. During 2006 the Board elected to delete the pre-emptive rights for the Series A Convertible Preferred Stock in their entirety. The Company originally intended to raise a minimum of \$2,000,000 in a Series A offering of 400,000 shares of Convertible Preferred Stock at \$5.00 a share. The Company received \$605,000 in proceeds from the Series A offering of 121,000 shares in 2005, and does not intend to raise any further proceeds from this offering. All 121,000 shares of the Company's preferred stock issued and outstanding were converted to common stock upon the Company's Initial Public Offering ("IPO") on the Alternative Investment Market ("AIM") in 2007 on a one-to-one basis.

NOTE 5 CAPITAL STRUCTURE (CONTINUED)

During 2006, the Board granted 130,000 shares of common stock to certain members of its clinical and scientific advisory board. Based on the fair market value at the date of grant of \$0.10 a share, the Company recorded compensation and consultation expense and common stock and additional-paid-in-capital of \$13,000.

During 2006 the Company entered into an agreement with an overseas investment bank to raise up to \$3 million in capital through a private placement memorandum (the "Private Placement"). The Company issued 650,937 shares of common stock to various stockholders for \$1,996,019, net of offering expenses of approximately \$256,000. The investment bank raised an additional net \$811,626 in 2007 through the sale of 227,762 shares of common stock. Additionally, during 2007 upon the closing of the Private Placement and

pursuant to the agreement, the Company issued a warrant to the overseas investment bank with a fair market value of approximately \$65,000.

On June 22, 2007, the Company raised approximately \$15.8 million in capital through the sale of 2,325,583 shares of common stock pursuant to an IPO on AIM, and incurred approximately \$3.6 million in total costs related to the IPO, resulting in approximately \$12.2 million of net proceeds. Costs related to the IPO included investment bank fees and commissions paid in cash (see below) and warrants as well as legal, audit, and professional consultancy fees.

On June 12, 2007, the Company entered into a placing agreement (the "Agreement") with an investment bank to act as a financial advisor, broker, and joint bookrunner in connection with its proposed IPO.

The Agreement called for payment of a corporate finance fee to the investment bank, which totaled approximately \$600,000, and \$250,000 to the joint bookrunner, reimbursement for all out-of-pocket expenses, and a cash placing commission of 5% calculated on the basis of the aggregate value, at the placing price, of the new common shares issued by the Company pursuant to the IPO. The investment bank separately reached an agreement on the division of this placing commission with another investment bank (the "Joint Bookrunner"). The total amount paid to the investment bank and the Joint Bookrunner in connection with the IPO, as converted to U.S. dollars, was approximately \$1,100,000 and \$590,000, respectively. In addition, the Agreement called for the investment bank and the Joint Bookrunner to receive a warrant to subscribe for 1% and \$12,500 worth of the issued and outstanding share capital of the Company, immediately post IPO, exercisable, in whole or in part, at any time following IPO at an exercise price equal to the placing price of the new common shares issued by the Company pursuant to the IPO. These warrants shall expire five years after admission to AIM or on June 22, 2012. Two separate agreements supporting these warrants were entered into between the Company and the investment bank and the Company and the Joint Bookrunner.

The Company entered into a separate agreement with the investment bank to serve as nominated adviser and broker to the Company on and after admission to AIM for a minimum initial period of 12 months for an annual fee of £50,000. This agreement was renewed during 2008 with the same terms as the initial agreement, with the £50,000 fee valued at approximately \$72,000 at December 31, 2008.

In January 2007 pursuant to the Private Placement, the Company entered into an agreement with the investment bank to grant them a warrant for 0.5% of the share capital of the Company following the Private Placement equating to 28,948 common shares at an exercise price of £1.82 (\$2.64 at December 31, 2008), the price at which the common shares were issued in the private placement. This warrant is exercisable in whole or in part at any time from January 4, 2007 until January 4, 2012.

NOTE 5 CAPITAL STRUCTURE (CONTINUED)

Upon the IPO, the Company converted all outstanding convertible promissory notes together with accrued interest to 307,287 shares of common stock (see Note 7). Certain convertible promissory notes included detachable warrants, which when the underlying notes converted, became exercisable into common shares. During 2008 and 2007 warrants to purchase 5,769 and 8,151 shares of common stock, respectively, were exercised.

In January 2008 the Company engaged a domestic investment bank to act as its placement agent in connection with a potential capital raise. The term of the arrangement was for one year and was renewed for a one year term subsequent to December 31, 2008 (see Note 10).

NOTE 6 STOCK BASED COMPENSATION

Common stock may, at the discretion of the Board of Directors, be granted. Common stock grants require no payment from the employee and compensation cost is recorded based on the fair market value on the grant date over the related vesting period. The Board approves the fair market value, which is determined by using an appropriate valuation method, including a comparable transaction approach. Vesting periods are determined by the Board.

During 2006, the Company granted options to purchase 165,000 shares of common stock to employees and consultants. All options vested immediately upon the Company's IPO (the "2006 grant").

The Company reserved 10% of the issued shares of common stock for issuance under the 2007 Incentive Plan (the "2007 Plan"), excluding any awards granted prior to the Company's IPO on June 22, 2007. Of those shares, 500,000 are reserved for issuance of incentive stock options. Under the 2007 Plan, the Compensation Committee is authorized to issue incentive stock options to employees and nonqualified stock options to consultants or employees of the Company.

During 2008 and 2007 the Company granted options to purchase 156,977 and 358,917 shares of common stock, respectively, to employees and consultants (the "2008 grant" and the "2007 grant", respectively). As of December 31, 2008 and 2007, the Company had 642,894 and 502,917 options outstanding, respectively, net of rescissions of 38,000 and 21,000 options, respectively. Of these, 345,226 and 181,306 were fully vested at December 31, 2008 and 2007, respectively. Options to purchase 215,000 shares of common stock were granted prior to the Company's IPO (the "pre-IPO options"), with 10,000 options rescinded during 2007. All of these options were outstanding at December 31, 2008.

The 2008 grant and the 2007 grant each included a grant to a certain licensor, pursuant to the license agreement, to purchase 13,242 and 6,306 shares of common stock, respectively. These options were fully vested upon issuance and their fair value of \$41,060 and \$27,908, respectively, was recorded in intangible assets and additional paid-in capital.

Options expire five to ten years from the grant date and outstanding options are exercisable at \$0.01 to \$7.07 per share. The remaining unvested options to purchase up to 297,668 shares of common stock will vest over a period of one month to 3.78 years and are exercisable at \$3.40 to \$6.75 per share. All options vest immediately upon a change of control, as defined in the Company's 2007 Plan.

The following table summarizes the plan's stock option activity during the years ended December 31, 2008 and 2007:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding at December 31, 2006	165,000	\$ 1.37
Granted	358,917	6.18
Forfeited	(21,000)	5.34
Outstanding at December 31, 2007	502,917	4.64
Granted	156,977	3.79
Forfeited	(17,000)	5.10
Outstanding at December 31, 2008	642,894	4.42
Exercisable at December 31, 2008	345,226	\$ 3.96

NOTE 6 STOCK BASED COMPENSATION (CONTINUED)

The following table shows total stock-based compensation expense:

	Year Ended December 31,	
	2008	2007
Research and development	\$ 315,389	\$ 179,070
Sales and marketing	80,818	78,813
General and administrative	385,240	149,960
	<u>\$ 781,447</u>	<u>\$ 407,843</u>

The options outstanding and exercisable at December 31, 2008, are as follows:

Range of Exercise Prices	Options Outstanding			Options Exercisable			
	Number Outstanding	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Aggregate Intrinsic Value	Options Exercisable	Weighted Average Exercise Price	Aggregate Intrinsic Value
\$0.01 - \$3.70	253,235	2.7	\$2.08	\$ 307,000	158,679	\$ 1.28	\$ 307,000
\$4.03 - \$5.99	160,742	3.6	4.92	-	53,742	5.23	-
\$6.63 - \$6.75	222,611	4.0	6.63	-	126,499	6.63	-
\$7.07	6,306	3.6	7.07	-	6,306	7.07	-
	<u>642,894</u>	<u>3.4</u>	<u>\$4.42</u>	<u>\$ 307,000</u>	<u>345,226</u>	<u>\$ 3.96</u>	<u>\$ 307,000</u>

The fair value of the options issued in 2008 and 2007 using the Black-Scholes Options Pricing Model was determined to be \$385,327 and \$1,381,994, respectively, using a weighted average forfeiture rate of 5.3% and 0%, respectively. At December 31, 2008, approximately \$517,000 of unrecognized compensation expense remained to be expensed over a weighted average period of 2.7 years.

The following weighted average assumptions were used to determine the fair value of the stock options:

	2008	2007
Risk free interest rate	2.7%	4.6%
Expected life of options	3.5 years	5.2 years
Expected dividends	0%	0%
Volatility	99%	78%

Subsequent to December 31, 2008, options to purchase 35,875 shares of common stock from the 2006, 2007 and 2008 grants were rescinded.

NOTE 7 CONVERTIBLE PROMISSORY NOTES

During 2006 and 2005 the Company entered into several convertible promissory notes totaling \$1,070,000 with detachable warrants. In addition, during 2006 the Company entered into several convertible promissory notes totaling \$330,000 without detachable warrants. The notes had an interest rate at 10% per annum and were payable on demand at any time on or after the first anniversary date of the note.

The notes were convertible into common stock in the event of: (1) a private equity offering of at least \$20 million, (2) an initial public offering of at least \$25 million, (3) a merger, acquisition, or consolidation of the Company, as defined, or (4) maturity.

The December 31, 2006 balance included a \$25,000 convertible promissory note due to an entity related to an Officer of the Company. During 2007 this note, together with \$2,445 in related accrued interest, was repaid in full.

NOTE 7 CONVERTIBLE PROMISSORY NOTES (CONTINUED)

During 2007 the Company amended all convertible promissory notes to provide for the notes, together with accrued interest, to be automatically converted into shares of common stock of the Company upon an IPO, without regard to the amount of the offering. Accordingly, upon the IPO, the outstanding convertible note balance of \$1,375,000, together with approximately \$168,000 in accrued interest, converted into 307,287 shares of common stock.

NOTE 8 LICENSE AGREEMENTS

During 2006 the Company entered into two license agreements with unrelated parties. In consideration of the rights and licenses granted under the first agreement, the Company must award the licensor \$275,000, \$168,055 which is payable in cash and \$106,945 which is payable in stock options. As of December 31, 2008 and 2007, \$61,110 was paid in cash to the licensor and no stock options were granted.

In consideration of the rights and licenses granted under the second agreement, the Company must award the licensor \$725,000, \$423,612 which is payable in cash and \$301,388 which is payable in stock options. These payments are made based on a function of time and the achievement of certain milestones, as defined in the agreement. The total number of options granted is a function of the option value divided by the then current fair market value of common stock of the Company as each milestone is achieved. As of December 31, 2008 and 2007, \$288,695 and \$208,556 was paid in cash to the licensor, respectively. During 2008 and 2007 options to purchase up to 13,242 and 6,306 shares of common stock, respectively were granted. The fair market value of these options on the grant date was \$41,060 and \$27,908, respectively.

The current fair market value of common stock of the Company is determined by the Company's stock price on AIM at the date of milestone achievement. In addition, the Company is required to pay royalties under these agreements. As of December 31, 2008, approximately \$2,800 in royalties were due pursuant to the second license agreement.

The Company has capitalized approximately \$447,000 and \$323,000 associated with these agreements as of December 31, 2008 and 2007, respectively. These costs are associated with the payments defined in the agreements and the costs to acquire the agreements.

NOTE 9 INCOME TAXES

The reconciliation of the benefit for income taxes based on the U.S. statutory federal income tax rate (34%) to the Company's income tax benefit is as follows for the years ended December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Computed federal tax benefit		\$
		(1,525,691)
State income taxes, net of federal income tax benefit	\$ (2,058,887)	1)
Costs incurred but not deductible for tax purposes	(218,000)	(161,544)
Deferred tax asset valuation allowance	5,107	8,365
	<u>2,271,780</u>	<u>1,678,870</u>
Total income tax benefit	<u>\$ -</u>	<u>\$ -</u>

NOTE 9 INCOME TAXES (CONTINUED)

As of December 31, deferred income tax assets (liabilities) resulted from the following temporary differences:

	<u>2008</u>	<u>2007</u>
Current:		
Net operating loss carryforward	\$ 4,293,807	\$ 2,409,775
R&D expenditures, net related amortization	211,518	108,135
Other	16,036	830
Noncurrent:		
Stock compensation	570,355	234,291
Property and equipment depreciation	<u>(4,954)</u>	<u>(7,312)</u>
Net deferred tax asset before valuation allowance	5,086,762	2,745,719
Valuation allowance	<u>(5,086,762)</u>	<u>(2,745,719)</u>
Total	<u>\$ -</u>	<u>\$ -</u>

For financial statement purposes, no tax benefit has been reported in 2008 and 2007 because realization of the tax benefit is uncertain. Accordingly, a valuation allowance has been established for the full amount of the net deferred tax asset.

Deferred income tax items result from future utilization of net operating losses generated. Federal and state income tax loss carryforwards of approximately \$11,411,000 are available to offset future federal and state taxable income. These tax loss carryforwards begin expiring in 2024.

The utilization of the net operating loss carryforward is dependent upon the Company's ability to generate sufficient taxable income during the carryforward period.

NOTE 10 SUBSEQUENT EVENTS

In February 2009 the Company renewed its January 2008 engagement with a domestic investment bank for an additional one year term (see Note 5). The terms of the engagement remained the same.

Mr. John D. Feltman resigned as Company Chairman of the Board and Non-executive Director on February 26, 2009. Mr. Feltman served in these positions since the Company's inception. Mr. Johnson, formerly the Deputy Chairman, was subsequently appointed Non-executive Chairman of the Board.

During 2009 options over 35,875 shares of common stock were rescinded.