

Press Information

AOI Medical, Inc.

("AOI Medical" or "the Company")

Maiden Interim Results

London, UK, 19 September 2007 - AOI Medical Inc. (AIM: AOI), the medical device company focusing on the development and commercialisation of innovative orthopaedic medial devices for the spine and trauma markets, today announces its interim results for the six months ended 30 June 2007, the Company's first set of results since its IPO in June 2007.

Operational Highlights

- 510(k) submission to US Food and Drug Administration ("FDA") for Balloon Assisted Management of Fractures ("BAMF") for spine
- BAMF Spine on track for end of year launch, subject to FDA approval
- Continued investment in product design and development
- Expansion of the Clinical Advisory Board

Financial Highlights

- Successful Initial Public Offering (IPO) on AIM, a market operated by the London Stock Exchange, raising \$15.8 million (gross)
- Increased investment in Research and Development to \$0.5 million (H1 2006: \$0.1 million)
- Loss before tax of \$1.8 million (H1 2006: \$0.9 million)
- Cash and Securities at 30 June 2007 of \$13.3 million (H1 2006: \$0.9 million)

Commenting on the results, Bill Christy, CEO of AOI Medical said:

"The past six months have been a period of substantial progress for the business. We were pleased to have raised the funds in the IPO earlier this year, and it has given us the resources to advance our strategy of becoming a leader in the development and commercialisation of innovative orthopaedic devices for the spine and trauma markets.

"We believe that the recent \$3.9 billion acquisition of Kyphon by Medtronic underlies the intrinsic value of this fast moving market."

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Overview

The Company has had a very successful start to the year, highlighted by the IPO on the AIM market of the London Stock Exchange in June 2007, raising \$15.8 million (gross) for the Company. The new equity capital will enable AOI Medical to further progress its strategy, as laid out at the time of the IPO, to continue the development of the Company's three platform technologies, as well as to begin the initial commercialising of the main products, BAMF Spine, BAMF Trauma, and Cervical Plate.

BAMF Spine

BAMF Spine (Balloon Assisted Management of Spine Fractures) is a set of tools intended to be used to address compression fractures of the spine caused by osteoporosis, cancer or trauma. BAMF Spine will comprise two main instruments: a cutting device that creates a cavity in cancellous bone, and a balloon-like device which is used to restore the height of the fractured vertebra and to deliver and contain the cement in the cavity. Current techniques used to treat progressive vertebral compression fractures include vertebroplasty and kyphoplasty. The Directors believe that BAMF Spine represents an enhancement over the current techniques as they expect the process: to be accomplished through one pedicle access port (incision) rather than two; to require fewer steps and less time; to be less susceptible to cement leakage; and to return the fractured vertebra to true anatomic position.

In July 2007, AOI Medical announced that, in line with the Company's commercial strategy and timeline, it had successfully processed its 510(k) submission. The submission was made following the development earlier this year of devices for biomechanical tests. Subject to the FDA approving the 510(k) submission by the fourth quarter of 2007, the BAMF Spine procedure is expected to be launched by the end of 2007. As described in the Company's Admission Document, the Directors had anticipated the FDA regulatory path may include clinical information to support the 510(k) application which could be satisfied by a confirmatory study. While the current communication from the FDA is not clear on the ultimate path, AOI Medical currently has a plan in place to respond in the event the FDA does require clinical information.

AOI Medical has also made further developments in BAMF Spine's product design and development. Bio-mechanical testing has evolved from initial testing on artificial bones, to pre-clinical devices. The early stage proof-of-concept devices ensured that we had the evidence we needed to translate the clinician's feedback to the customers. After several iterations AOI Medical's product development team moved to cadaveric models and crushed osteoporotic bone to further refine the products. This feedback and validation from clinicians has allowed us to proceed with the approval of manufacturing tools to begin producing components for production quality products. Our product development team will continue to improve our technology as we learn from surgeon feedback and make modifications.

Current techniques used to treat progressive vertebral compression fractures include vertebroplasty and kyphoplasty (so named by Kyphon, the company that developed the technology). In July 2007, it was announced that Medtronic (NYSE:MDT) had acquired Kyphon for \$3.9 billion. This acquisition fully underpins the market opportunity that lies within this area as patients and doctors continue to seek modern, minimally invasive spinal treatments that enhance patient life-styles and are simpler, faster and less-invasive than the traditional surgical treatments. The Directors of AOI Medical believe that the Company has a product that can significantly challenge the current products on the market.

In 2004, the worldwide market for devices targeted towards spinal conditions had a value of around \$3.5 billion and most recent estimates indicate that the spinal products market will approach \$10 billion by 2010. The growth is being driven by increasing incidences of osteoporosis in an ageing population and a growing number of sports related injuries as people become more active. In 2009, the BAMF Spine global market size is estimated to be over \$500 million.

BAMF Trauma

BAMF Trauma (Balloon Assisted Management of Trauma Fractures) is a removable, inflatable nail for the stabilisation of fractures of the long bones of the arms and legs. AOI Medical's BAMF Trauma differs from the nails currently on the market in that it is a combination of a stainless steel nail inside a balloon. The device is inserted into the intramedullar canal of the fractured bone with the balloon

deflated. The balloon is then inflated to fill the remaining space. The Directors believe 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, adapted to the bone cavity while in place; and be easily removed by deflating the balloon, thus narrowing the diameter of the device again. The Directors believe that this last feature should make the device particularly interesting for treating children, in whom growth in the affected limb is impaired if a stabilisation device is left in place.

The development of the BAMF trauma products has progressed well this half year. Specifically, in the design and development of the intramedullary nail, histology examination testing models are coming off station and the initial histological material tolerance data will be available within the coming months. This data will give the Directors an initial evaluation of the concept design in-vivo and allow the product to be designed in such a way for further testing. After further laboratory testing, the Company is planning to follow the 510(k) with clinical data route for BAMF Trauma, with clinical studies carried out under an investigational device exemption ("IDE"). Submission to the FDA for IDE approval is still on track for the fourth quarter of 2007, with patient enrolment for clinical trials scheduled for the fourth quarter of 2008.

It is estimated that over 300,000 intramedullary nailing procedures were performed in the US in 2002. This number is forecast to grow to more than 400,000 by 2009. Sales of intramedullary nails were estimated to be approximately \$378 million in 2002, and are forecast to grow to approximately \$773 million by 2009. An estimated \$204 million, or 53.9 per cent. of total revenues in 2002, was generated by the sale of nails used in the femur.

Cervical Plate

The Cervical Plate (Motion Preserving Cervical Dynamic Stabilisation Plate) is an anterior, semi-constrained artificial ligament designed to provide some translational and rotational motion when used subsequent to a cervical spine disc replacement surgery. Current practice for severe intractable disc disease is spinal fusion. Spinal fusion is a medical procedure by which two or more vertebrae are linked together. Fusion may be carried out to treat a number of spinal conditions; however, it causes stiffness of the spine in patients and increases stress to the adjacent levels of the spine which may lead to additional morbidity. The failure rate after lumbar fusion has been reported to be as high as 37 per cent. Anterior plates provide stability following decompression and fusion of the cervical spine. The Directors believe that the following technical attributes of the Cervical Plate provide it with a technological advantage over existing spinal fusion techniques: it offers a motion preservation fusion approach that aims to promote a return to normal range of motion when used in combination with alternatives to fusion; the sculpted design and thickened rails of the Cervical Plate should allow the support needed to allow multi-directional movement while ensuring disc compression, reducing pressures across adjacent parts of the spine; and it is a smaller device than competitive devices and should therefore be less disruptive.

The Company has made steady progress with the development of the Cervical Plate. As described in the Company's Admission Document, AOI Medical continues to watch the clinical trial results of those competing technologies in nucleus repair, annulus repair and facet repair that are currently under FDA investigation to look for evidence of which technologies will be effective. This information will allow AOI Medical to invest in R&D with our plating system to produce the best possible solution for use in conjunction with the aforementioned therapies.

The Company is planning to obtain FDA approval via the 510(k) with clinical data route and will apply for an IDE for the product to establish range of motion data. Provided that an appropriate motion preserving disc or nucleus replacement device is identified by the beginning of 2008, the Directors estimate that the initial commercialisation of the Cervical Plate will commence in the fourth quarter of 2008 through IDE sales. The Company aims to gain FDA approval, with range of motion, in the fourth quarter of 2011, when full commercialisation will begin.

Intellectual Property Portfolio Development

The Directors believe that the protection of the Company's intellectual property is fundamental to its commercial strategy, and AOI Medical actively seeks to protect its technologies and individual

products using patents where appropriate. During the last year, AOI Medical has continued to develop its intellectual property position, and the Company has aggressively improved its intellectual property portfolio as it was granted one new US patent. AOI Medical also filed five additional US and International patents to protect the three platform technologies and two new medical applications.

Expansion of the Clinical Advisory Board (CAB)

We are in the process of expanding our Clinical Advisory Board (CAB) to nine individuals with six under contract and three pending contracts. We are also evaluating and in discussions with additional clinicians in an effort to continually add feedback to our product development programs. The current CAB collectively covers the differing specialties that perform the current procedures to treat Vertebral Compression Fractures (VCF). This added component will aid the company as it further develops the BAMF system. The Directors intend to increase this board toward a target of thirty over the next year.

Outlook

The fundraising in June 2007 has allowed us to invest in R&D, advance our key products and prepare for the initial commercialization of BAMF Spine onto the market. AOI Medical continues to increase headcount to support the growth of the three platform technologies and the building of the initial sales infrastructure. With this investment we anticipate continued progress in each development programme. BAMF Spine will continue to progress as we move closer to a market launch; the addition of engineering staff will allow us to further our goals past initial histological tolerance testing of our BAMF Trauma technology and we continue to watch the clinical developments of the cervical space to understand the needed developmental information produced by the ongoing clinical trials. The Company's prospects look promising and we look forward to reporting on the progress we will make in the coming months.

Notes To Editors

Background to AOI Medical

AOI Medical is a medical device company focussing on the development and commercialisation of innovative orthopaedic medical devices for the spine and trauma markets. It is progressing the development of three separate technology platforms: BAMF Spine, BAMF Trauma and Cervical Plate.

FINANCIAL REVIEW

INCOME STATEMENT

Revenue

AOI is an early stage medical device company and as such currently has no source of direct revenue.

Expenses

Operating expenses increased by \$1.1 million to \$1.8 million versus the six months ended 30 June 2006 ("H1 2006") \$0.7 million. \$476,000 of the increase was due to increased investment in research and development ("R&D") activities in the six months ended 30 June 2007 ("H1 2007"). Salaries, insurance and travel expenses in other departments reflect an increase of \$475,000 from H1 2006, with the majority of the increase related to salaries and stock option compensation expense. H1 2007 also reported an increase in professional fees of \$83,000 over H1 2006. The increases resulted largely from increased activity in R&D, the ramping up of sales and marketing activities, increased headcount and expenses associated with the Company's admission to AIM in June 2007.

Net other expense decreased from \$194,000 to \$49,000, with an increase in interest income largely due to an unrealized gain on trading securities of \$4,000 while H1 2006 included loss on unconsummated acquisition of \$143,000.

BALANCE SHEET

Cash and cash equivalents

The Company had cash and cash equivalents of \$9.3 million as at 30 June 2007 compared with \$0.1 million at 30 June 2006. The increase in cash and cash equivalents reflects the \$2.8 million, net of expenses, raised via an equity placing in August 2006 and an additional \$12.7 million, net of expenses, reflecting a placing from the Company's admission to AIM ("the IPO").

Other current assets

The Company invested \$4.0 million of the \$12.7 million in net proceeds from the IPO in fixed income trading securities to achieve a greater rate of return.

Property and equipment, net

Property and equipment, net increased \$86,000 to \$117,000. Of this net increase, \$66,000 reflects the purchase of tooling, machinery and equipment needed for research and development efforts. The remaining \$20,000 of the increase relates to the acquisition of furniture, fixture and equipment for the additional leased space and headcount.

Intangible Assets, net

Intangible Assets, net is comprised of capitalized patent costs of \$119,000 (H1 2006: \$26,000) and capitalized license costs of \$265,000 (H1 2006: \$128,000), net of accumulated amortization of \$21,000 thousand (H1 2006: nil). The increase over H1 2006 largely reflects payments of \$123,000 and \$31,000 to two licensors in accordance with the achievement of certain milestones.

Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses increased to \$881,000 in H1 2007 from \$190,000 in H1 2006 largely due to outstanding amounts relating to the successful IPO in June 2007 as well as \$233,000 in accrued wages which were paid in August 2007.

Notes Payable and Convertible Promissory Notes

H1 2006 Notes Payable of \$60,000 were repaid in H1 2007. The Convertible Promissory notes of \$1.3 million at H1 2006, together with accrued interest, converted to ordinary share capital upon the Company's admission to AIM.

Share capital

The Company had 8.4 million USD\$0.0001 ordinary shares outstanding at 30 June 2007 (H1 2006: 121,000 preferred shares, 4,790,000 ordinary shares). All preferred shares converted to ordinary shares upon the Company's admission to AIM.

STATEMENTS OF OPERATIONS

		Unaudited Six months ended 30 June 2007 (\$'000)	Unaudited Six months ended 30 June 2006 (\$'000)	Audited Year ended 31 December 2006 (\$'000)
	Notes			
Revenues		-	-	-
Cost of Sales		-	-	-
Gross Profit		-	-	-
Research and Development		577	101	338
Operations		65	47	77
Sales & Marketing		172	5	30
General and Administrative		974	580	1,350
Total operating expenses		1,788	733	1,795
Operating income (loss)		(1,788)	(733)	(1,795)
Other income (expense) net:		(49)	(194)	(314)
Net loss and deficit accumulated during development stage		(1,837)	(927)	(2,109)
Basic loss per share - dollars	2	(0.31)	(0.19)	(0.42)
Diluted loss per share - dollars	2	(0.30)	(0.19)	(0.40)

Balance Sheets

		Unaudited Six months ended 30 June 2007 (\$'000)	Unaudited Six months ended 30 June 2006 (\$'000)	Audited Year ended 31 December 2006 (\$'000)
	Notes			
ASSETS				
Current assets:				
Cash and cash equivalents	1	9,269	87	957
Other current Assets		4,045	21	18
Total current assets		13,314	108	975
Property and equipment, net		117	31	47
Intangible assets		384	154	297
Other Assets		18	18	16
Total Other Assets		519	203	360
TOTAL ASSETS		13,833	311	1,335
LIABILITIES & EQUITY				
Current liabilities:				
Accounts payable and accrued expenses		881	190	251
Note payable	5	1	1,365	1,204
Total current liabilities		882	1,555	1,455
Notes Payable	5	-	1	260
Total long-term liabilities:		-	1	260
Stockholders' deficit:				
Preferred stock	3	-	-	-
Common stock	3	1	-	1
Additional paid-in capital	3	17,822	608	2,654
Deficit accumulated during development stage	3	(4,872)	(1,853)	(3,035)
Total Equity		12,951	(1,245)	(380)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT		13,833	311	1,335

STATEMENTS OF CASH FLOWS

	Unaudited Six months ended 30 June 2007 (\$'000)	Unaudited Six months ended 30 June 2006 (\$'000)	Audited Year ended 31 December 2006 (\$'000)
Cash flows from operating activities:			
Net (Loss)	(1,837)	(927)	(2,109)
Adjustments to reconcile net loss to net provided by (used in) cash used in operating activities:			
Depreciation and amortization	23	7	29
Write off of deferred charges and other costs	-	50	50
Loss on investment	-	-	2
Stock grants and options	180	3	50
Deferred Compensation	6	-	-
Increase in other current assets	(4,003)	-	-
(Decrease) increase in note receivable	(1)	2	2
Increase in prepaid expenses	(24)	(14)	(11)
Increase in intangible assets, net	(95)	(121)	(276)
Decrease in deposits	(2)	-	-
Increase in accounts payable and accrued expenses	799	99	160
Net cash used in operating activities	<u>(4,954)</u>	<u>(901)</u>	<u>(2,103)</u>
Cash flows from investing activities:			
Purchase of property and equipment	(84)	(11)	(36)
Net cash used in investing activities	<u>(84)</u>	<u>(11)</u>	<u>(36)</u>
Cash flows from financing activities:			
Borrowings and repayments on notes payable, net	(89)	594	695
Issuance of stock	13,439	-	1,996
Net cash provided by financing activities	<u>13,350</u>	<u>594</u>	<u>2,691</u>
Net increase (decrease) in cash and cash equivalents	8,312	(318)	552
Cash and cash equivalents, beginning of period	957	405	405
Cash and cash equivalents, end of period	<u>9,269</u>	<u>87</u>	<u>957</u>
Supplemental disclosure of cash flow information:			
Cash paid for interest	<u>12</u>	<u>8</u>	<u>16</u>
Supplemental disclosure of non-cash activity			
Issuance of warrants	<u>452</u>	<u>3</u>	<u>3</u>
Stock grants	<u>-</u>	<u>13</u>	<u>13</u>
Issuance of stock options, net of rescissions	<u>180</u>	<u>7</u>	<u>37</u>
Deferred Compensation	<u>6</u>	<u>-</u>	<u>-</u>

NOTES TO THE UNAUDITED INTERIM RESULTS

1. BASIS OF PREPARATION

The interim financial information has been prepared on the basis of the accounting policies set out in the Company's audited financial statements for the year ended 31 December 2006.

Results for the periods ended 30 June 2007 and 30 June 2006 have not been audited. The results for the period ended 31 December 2006 have been extracted from the audited financial statements and upon which the auditors reported with a going concern qualification.

Copies of the interim results for the six months ended 30 June 2007 are being sent to all shareholders. Details can also be found on the Company's website at www.aoimedical.net.

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.

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. 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.

Intangible Assets

Intangible assets consist of capitalized patent costs and capitalized license costs, net of accumulated amortization.

Patent costs include legal costs incurred for various patent applications and filing fees. Once the 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 cost at that time.

License costs include payments to the licensor 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 life of the licenses.

The Company records the acquisition and amortization of patents and license fees in accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and other Intangible Assets". The Company reviews patents and license fees for impairment in accordance with statement of Financial Accounting Standards 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 patent costs and license fees.

Investments

Investments include trading securities. Such investments are carried at fair value. Unrealized gains and losses are charged to operations and the investment is carried at its new cost basis.

Fair Values of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents, notes payable and convertible promissory notes: The carrying amounts reported in the balance sheets approximate fair values because of the short maturities of those instruments and rates available for similar notes.

Revenue Recognition

The Company will recognize revenue upon shipment to distributors or customers.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently payable plus deferred taxes related primarily to tax loss carryforwards. Any applicable deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

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

The Company follows SFAS No. 123R, *Share Based Payment*, for stock-based compensation, which establishes a fair value based method of accounting for such stock-based compensation. Stock-based compensation cost is measured at the grant date based on the fair value of the award, taking into consideration estimated forfeitures, and is recognized as compensation expense over the vesting period. The Company provides the disclosure requirements of Statement of Financial Accounting Standards ("SFAS") No. 123, *Accounting for Stock-Based Compensation*, and SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure, and Amendment of FAS No.123*, for employee arrangements. Stock-based awards to non-employees are accounted for under SFAS 123, related amendments and related interpretations.

Accounting for the Issuance of Debt with Warrants

The Company accounts for debt issued with warrants under the provisions of Accounting Principles Board (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 Opinion 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. In H1 2007, all debt securities converted into shares of the Company's common stock upon its admission to AIM.

2. LOSS PER SHARE

Basic

Basic loss per share is calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares in issue during the year.

	Unaudited six months ended 30 June 2007	Unaudited six months ended 30 June 2006	Unaudited year ended 31 December 2006
Loss attributable to common shareholders	(1,837)	(927)	(2,109)
Weighted average number of common shares	5,916	4,809	5,067
Basic loss per share	\$ (0.31)	\$ (0.19)	\$ (0.42)

Diluted

Diluted loss per share is calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares assuming the exercise of share options and warrants.

	Unaudited six months ended 30 June 2007	Unaudited six months ended 30 June 2006	Unaudited year ended 31 December 2006
Loss attributable to common shareholders	(1,837)	(927)	(2,109)
Weighted average number of common shares	6,130	4,969	5,256
Diluted loss per share	\$ (0.30)	\$ (0.19)	\$ (0.40)

3. RECONCILIATION OF CHANGES IN STOCKHOLDERS' DEFICIT

Statement of Changes in Stockholders' Deficit

	Preferred Shares (\$'000)	Common Shares (\$'000)	Additional Paid-in Capital (\$'000)	Accumulated Deficit (\$'000)	Total (\$'000)
Balance 31 December 2006	0.01	0.54	2,654	(3,035)	(380)
Cash paid for prior year stock grant	-	-	-	-	-
Sale of common shares 04 January 2007	-	0.03	812	-	812
Sale of common shares on 22 June 2007	-	0.23	12,627	-	12,627
Conversion of convertible debt to common shares upon IPO	-	0.03	1,543	-	1,543
Conversion of preferred stock to common shares upon IPO	(0.01)	0.01	-	-	-
Issuance of stock options, net of rescissions	-	-	180	-	180
Deferred Compensation	-	-	6	-	6
Net loss	-	-	-	(1,837)	(1,837)
Balance 30 June 2007	-	0.84	17,822	(4,872)	12,951

4. SHARE-BASED COMPENSATION

During H1 2007, the Company granted options to purchase 66,000 shares of common stock to employees and consultants. Of these, options for 50,000 shares of common stock were granted to an employee and a consultant at an option price equal to a 15% discount to the placing price, or \$5.85 per share. The 20,000 options granted to the consultant vested 100% upon the Company's Admission to AIM and expire ten years from the grant date. The balance of options over 16,000 shares of common stock were granted to employees at an option price of \$7.05 per share. All 46,000 unvested options will vest 25% per year from the grant date and have a ten year life.

In early H1 2007, options granted in December 2006 to purchase 10,000 shares of common stock were rescinded. The value of these shares was \$26,372, with \$4,578 of this value being expensed at 31 December 2006.

The following table summarizes the activity related to stock options outstanding as of 30 June 2007:

Outstanding at 31 December 31 2006	165,000
Granted	66,000
Forfeited	<u>(10,000)</u>
Outstanding at 30 June 2007	<u><u>221,000</u></u>

<u>Option Shares</u>	<u>Exercise Price</u>	<u>H1 2007 Remaining Life</u>	<u>H1 2006 Remaining Life</u>
100,000	\$.01	7.9 years	8.4 years
55,000	\$ 3.45	9.5 years	unissued
20,000	\$ 5.85	9.8 years	unissued
30,000	\$ 5.85	9.8 years	unissued
16,000	\$ 7.05	10.0 years	unissued

At 30 June 2007 and 2006, 175,000 and 33,333 options were vested, respectively. These options are summarized below:

	<u>Vested Option Shares</u>	<u>Range of Exercise Price</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Life</u>
H1 2007	175,000	\$0.01 - \$5.85	\$ 1.76	9.1 years
H1 2006	33,333	\$ 0.01	\$ 0.01	8.4 years

The fair value of the options issued in H1 2007 and 2006 was determined to be \$224,395 and \$49,078, respectively. The following assumptions were used to determine the fair value of the stock options:

	<u>2007</u>	<u>2006</u>
Risk free interest rate	4.76%	4.75%
Expected life of options	10 years	10 years
Expected dividends	0%	0%
Volatility	76%	65%

At H1 2007 and 2006, respectively, \$180,252, and \$3,530 of expense associated with vested options was recorded in the accompanying statements of operations.

Subsequent to 30 June 2007, options to purchase 15,000 shares of common stock were granted.

5. CONVERTIBLE PROMISSORY NOTES

During the year ended 31 December 2006 and the period ended 30 June 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. Pursuant to note amendments entered into during H1 2007 by all noteholders, these notes, together with accrued interest, became convertible into common stock in the event of an IPO. On 22 June 2007 upon the Company's Admission to AIM,

the outstanding convertible promissory note and related interest payable balance of \$1,543,160 converted into 307,287 common shares of the Company.

During H1 2007, the Company issued warrants over 114,991 shares of common stock (“the H1 2007 warrants”) for consultation services during the Company’s private equity raise and the Company’s IPO which were completed in H1 2007. The fair value of these warrants issued in H1 2007 was \$451,640. The fair value of the warrants issued in H1 2006 was \$3,242. The fair value of all warrants was estimated at the date of issuance utilizing the Black Scholes pricing model.

The following assumptions were used to determine the fair value of the warrants issued in H1 2007 and H1 2006:

	<u>2007</u>	<u>2006</u>
Risk free interest rate	4.75% - 5.03%	4.75%
Expected life of options	5 years	5 years
Expected dividends	0%	0%
Volatility	76%	65%

In H1 2007, the value of the warrants was recorded in Additional Paid in Capital (“APIC”). As the warrant issuance represents expenses pursuant to stock issuances, their value was recorded as a reduction to APIC while the issuance of the warrants themselves increased APIC in the accompanying balance sheets for the period ended 30 June 2007. \$540 and \$1,081 of interest expense was recorded at 30 June 2007 and 2006, respectively, for the warrants issued in 2006, based upon the original maturity date of the convertible promissory note and the average life of the notes with detachable warrants.

6. LEASE COMMITMENTS

The Company leases office space under an operating lease. In September 2006, the Company renewed the lease agreement through 31 August 2007. The lease was further amended in 2006 to include additional office space. Through 31 August 2007, the Company is required to pay \$3,124 per month, which includes \$802 per month for twelve months that the Company is required to reimburse for build-out costs to the University of Central Florida. In September 2007, the Company renewed the lease for a one-year period. Under the new lease, which can be cancelled without penalty upon giving thirty days notice, the Company is required to pay \$2,322 per month. The Company fulfilled its reimbursement obligation for the build-out costs with its August 2007 payment.

In September 2007, the Company entered into a separate operating lease for new office space needed due to expansion. It is expected the company will move into this space in November 2007 upon completion of build out.