

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt about the contents of this document or as to the action you should take, you are recommended to seek your own personal financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised pursuant to the Financial Services and Markets Act 2000 (or if you are a person outside the UK, otherwise duly qualified in your jurisdiction), who specialises in advising on the securities of the kind described in this document. If you have sold or transferred all of your Common Shares, please forward this document and the accompanying form of proxy as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee.

The Directors, whose names appear on page 5 of this document, accept responsibility for the information contained in this document. To the best of the knowledge of the Directors, such information is in accordance with the facts and does not omit anything likely to affect the import of such information.

AOI MEDICAL, INC.

(Incorporated in the State of Delaware, US under the General Corporation Law of the State of Delaware with registered number 3877765)

Notice of Special Meeting

Announcement of Preliminary Results for the Year to 31 December 2007

Notice of a Special Meeting of AOI Medical, Inc. to be held on 15 May 2008 at 10.00 a.m. at the offices of Financial Dynamics, Holborn Gate, 26 Southampton Buildings, London WC2A 1PB is set out at the end of this document.

Shareholders will find enclosed a form of proxy for use at the Special Meeting. The form of proxy should be completed and returned to the Company's registrars, Computershare Investor Services (Channel Islands) Limited, PO Box 83, Ordinance House, 31 Pier Road, Jersey, JE4 8PW, Channel Islands, in accordance with the instructions printed on it, as soon as possible, and in any event so as to be received no later than 10.00 a.m. on 13 May 2008. Completion and return of a form of proxy will not preclude Shareholders from attending and voting in person at the Special Meeting should they so wish.

The contents of this document include statements that are, or may be deemed to be "forward looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including, without limitation, the terms "believes", "estimates", "anticipates", "expects", "intends", "may", "will" or "should". By their nature, forward looking statements involve risks and uncertainties and readers are cautioned that any such forward-looking statements are not guarantees of future performance. A number of factors could cause the Company's actual results and performance to differ materially from the impression created by the forward-looking statements. Save as required by law, the Company undertakes no obligation to publicly update or revise forward-looking statements. No statement in this document is intended to be a profit forecast or be relied upon as a guide to future performance.

Numis Securities Limited is authorised and regulated by the Financial Services Authority in the United Kingdom and is acting only for the Company in connection with the matters described in this document and is not acting for or advising any other person, or treating any other person (whether or not a recipient of this document) as its client in relation thereto and will not be responsible to anyone other than the Company for providing the protections afforded to its clients nor for any other advice to any other person in relation to the matters which are the subject of this document. Such persons should seek their own independent legal, investment and tax advice as they see fit.

CONTENTS

	<i>Page</i>
Definitions	3
Part 1: Letter from the Chairman of AOI Medical, Inc.	5
Part 2: Announcement of Preliminary Results for Year to 31 December 2007	9
Part 3: Notice of Special Meeting	26

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Latest time and date for receipt of forms of proxy	10.00 a.m. on 13 May 2008
Time and date of Special Meeting	10.00 a.m. on 15 May 2008

(All references in this document to times are to British Summer Time unless otherwise stated.)

DEFINITIONS

The following definitions apply throughout this document and in the accompanying form of proxy unless the context requires otherwise:

“AIM”	AIM, a market operated by the London Stock Exchange;
“AIM Rules”	the rules for AIM companies and their nominated advisers published by the London Stock Exchange governing admission to, and the operation of, AIM (as amended from time to time);
“Ascendx™”	Ascendx™ VCF Reduction System;
“Board” or “Directors”	the directors of AOI whose names are set out on page 5 of this document;
“By-laws”	the by-laws of the Company as amended or restated from time to time;
“Common Shares”	the shares of common stock of US\$0.0001 par value per share of the Company;
“Company” or “AOI”	AOI Medical, Inc.;
“CREST”	the United Kingdom paperless share settlement system of which Euroclear is the Operator (as defined in the Uncertificated Securities Regulations 2001);
“Depository Interests”	the depository interests by Computershare Investor Services plc in respect of the underlying Common Shares which may be traded and settled in CREST;
“DGCL”	the Delaware General Corporation Law, as in effect on the date of this document;
“Euroclear”	Euroclear UK and Ireland Limited;
“FDA”	US Food and Drug Administration;
“FSMA”	the Financial Services and Markets Act 2000;
“London Stock Exchange”	London Stock Exchange plc;
“Numis”	Numis Securities Limited;
“Prospectus Rules”	the prospectus rules made pursuant to part VI of FSMA;
“Registrars”	Computershare Investor Services (Channel Islands) Limited, PO Box 83, Ordinance House, 31 Pier Road, Jersey, JE4 8PW;
“Resolutions”	the resolutions to be proposed at the Special Meeting, as set out in the notice of Special Meeting at the end of this document;
“Securities Act”	the US Securities Act of 1933, as amended;
“Shareholders”	holders of Common Shares at the date of this document;
“Special Meeting”	the special meeting of AOI to be held on 15 May 2008 at 10.00 a.m. at the offices of Financial Dynamics, Holborn Gate, 26 Southampton Buildings, London WC2A 1PB, notice of which is set out at the end of this document;

“UK” or “United Kingdom”

the United Kingdom of Great Britain and Northern Ireland; and

“US” or “United States”

the United States of America, each state thereof, its territories and possessions and the District of Columbia and all other areas subject to its jurisdiction.

PART I

Letter from the Chairman of AOI Medical, Inc.

AOI Medical, Inc.

(Incorporated in the State of Delaware, US under the General Corporation Law of the State of Delaware with registered number: 3877765)

Directors:

John D. Feltman	<i>(Non-executive Chairman)</i>
Ian R. Johnson	<i>(Non-executive Deputy Chairman)</i>
William J. Christy	<i>(President and Chief Executive Officer)</i>
Fred A. Achecar, Jr., M.D.	<i>(Non-executive Director)</i>
Scott A. Baily	<i>(Non-executive Director)</i>
Paul M. Garvey	<i>(Non-executive Director)</i>
Stephen J. Warner	<i>(Non-executive Director)</i>
Dr. George B. Weathersby Ph.D	<i>(Non-executive Director)</i>
D. Keehln Wheeler	<i>(Non-executive Director)</i>

30 April 2008

To: Shareholders and, for information only, to holders of options

Dear Shareholder,

Notice of Special Meeting Announcement of Preliminary Results for the Year to 31 December 2007

1. Introduction

It was announced in the Company's preliminary results today that the Directors believe that it would be prudent to position the Company now to be able to raise additional capital through the issue of further common shares or convertible securities in excess of the existing issuance authorities of the Company.

The Company's By-laws provide that issues of shares should be first offered to existing Shareholders in proportion to the Common Shares that they hold unless the Shareholders have waived such pre-emption rights. The Directors are therefore seeking the authority of Shareholders to waive such pre-emption rights for the issuance of relevant securities up to a specified amount in order to give the Directors the maximum flexibility to attract new investors to the Company and to thereby secure the future financing of the Company.

This circular explains why the Company is seeking to increase its authorities and provides you with information to enable you to exercise your vote at the forthcoming Special Meeting, notice of which can be found on page 26 of this document, to be held on 15 May 2008 at 10.00 a.m. at the offices of Financial Dynamics, Holborn Gate, 26 Southampton Buildings, London WC2A 1PB. This circular also explains the process for exchanging your restricted Common Shares for unrestricted unlegended Common Shares following the passing of the one-year holding period on 22 June 2008.

2. Background to and reasons for the increase in authorities

AOI successfully completed its admission on AIM in June 2007, at which time the Company raised a total of £8 million (before expenses) from the placing of new Common Shares.

Since the time of its admission, AOI has continued to progress the development of its key technology platforms, BAMF Spine (now renamed Ascendx™ VCF Reduction System), BAMF Trauma and Cervical Plate. In particular, the Company has focussed on the development of its Ascendx™ technology platform.

On 4 July 2007, the Company announced that it has successfully processed its 510(k) submission for Ascendx™. The submission was made following the development earlier in the year of devices for biomechanical tests. Due to the existence of predicate materials and devices having successfully attained FDA approval, the submission was made without supporting clinical data, consistent with standard market practice. At this time, it was the Company's expectation that, subject to the FDA approving the 510(k) submission by the fourth quarter of 2007, Ascendx™ would be launched by the end of 2007.

On 8 October 2007, the Company announced that following constructive dialogue with the FDA, the FDA had extended the consultation period for a further 90 days before deciding whether to give the Company approval to market Ascendx™ in the United States. The announcement also stated that AOI had appealed to the regulator following receipt of a letter from the FDA requesting a confirmatory study and that the FDA had agreed to give further consideration to the necessity of a clinical trial, resulting in the extended consultation period. As a result, the Company expected to meet with the FDA again in late October 2007 and to get clarity on the outcome shortly thereafter.

On 26 October 2007, the Company announced that the FDA had asked AOI to conduct a clinical study of its Ascendx™ technology. As a result of this decision, the Company announced that it expected the commercial launch of Ascendx™ in the US to now be delayed to H2 2008.

On 19 December 2007, AOI announced that the FDA has granted conditional approval for AOI to begin a sixty subject, single arm study of Ascendx™, with the clinical trial expected to commence in Q1 2008.

On 23 April 2008, the Company announced that it had received final approval from the FDA to commence a clinical trial for its Ascendx™ technology, with the study expected to start by mid-May 2008. The announcement also stated that whilst the Company remained hopeful of obtaining FDA regulatory approval in time to launch Ascendx™ commercially before the end of Q4 2008 it was possible that commercial launch might be delayed into early 2009 based on response time from the FDA.

Because of the delays to the commercial launch of Ascendx™ resulting primarily from the FDA requiring the Company to conduct a clinical study of its Ascendx™ technology, the Directors believe that it would be prudent to now seek the approval of Shareholders to raise additional capital through the issue of further Common Shares or convertible securities in excess of the existing issuance authorities of the Company. Accordingly, the Directors wish to increase the general authorities to allot and issue relevant securities of an aggregate nominal amount of up to \$1,500.00 (namely up to 15,000,000 Common Shares) and to seek the authority to disapply the pre-emption rights set out in the By-laws in respect of the issue of Common Shares authorised under the general authority of an aggregate nominal amount of up to \$1,500.00 (namely up to 15,000,000 Common Shares). These authorities to issue up to an additional 15,000,000 Common Shares represent up to approximately 178 per cent. of the current issued share capital of the Company.

The Directors believe that it is necessary to put these authorities in place in order to give the Directors the maximum flexibility to attract new investors to the Company and to thereby secure the future financing of the Company, including, but not limited to:

- funding pre-clinical and clinical development activities, including funding clinical trials;
- funding the development of AOI's marketing and sales infrastructure in the US;
- funding the commercialisation of its key technology platforms, Ascendx™, BAMF Trauma and Cervical Plate; and
- for general working capital purposes.

The Company is currently in discussions with its advisers in relation to the precise nature and timing of any issuance of Common Shares and/or convertible securities, however, in deciding the final form of any such issuance, the Directors will have regard to the best interests of the Shareholders of the Company.

3. No offer or solicitation of securities

Nothing in this document constitutes an offer of transferable securities to the public in any jurisdiction.

4. Settlement in CREST

Shares of restricted Common Shares which you are holding in AOI will have passed the one-year holding period on 22 June 2008 and, accordingly, these Common Shares are eligible for resale through Rule 144 under the Securities Act. AOI is establishing a process with the Registrars pursuant to which you can exchange your restricted Common Shares for unrestricted unlegended Common Shares. AOI is also arranging for a Depository Interest facility to be set up in order for eligible unlegended stock to be held in electronic form in CREST. The benefit of holding your Common Shares in Depository Interests is for ease of settlement in the United Kingdom and is, therefore, more efficient for trading on the London Stock Exchange. It is anticipated that the Depository Interest facility will be set up by mid-July 2008. If you wish to hold your Common Shares in electronic form, you will need to arrange for your legend to be removed from your current share certificate. To do so, you will have to sign a certification addressed to the Company and the Registrars confirming that:

- (a) you are not an “affiliate”¹ of the Company within the meaning of Rule 144 under the Securities Act and that you have not been an affiliate during the three month period prior to the date of the certification; and
- (b) either:
 - (i) you have continuously held your Common Shares for a period of at least 12 months; or
 - (ii) you acquired your Common Shares from a seller that was not the Company or an affiliate of the Company, in a trade that occurred through the facilities of AIM and otherwise in an “offshore transaction” meeting the requirements of Rule 904 under the Securities Act, and the Common Shares were not “restricted securities”² when you acquired them; or
 - (iii) the Common Shares were “restricted securities” when you acquired them but as from the date of the certification, a period of at least 12 months has passed since the Common Shares were acquired from the Company or an affiliate of the Company and any restrictions indicated on the certificate representing the Common Shares have lapsed.

The Company and the Registrars will also require you to confirm that if you become an affiliate of the Company after the date of the certification that you will agree to take all steps necessary to immediately re-materialise any AOI Depository Interests held by you and that you will ensure that any Common Shares held by you are represented by a share certificate in certificated form bearing such restrictive legends as the Company may require regarding your affiliate status in accordance with the Securities Act and applicable law.

You will also be required to give an indemnity to the Company and the Registrars in respect of any loss which they may suffer as a result of the certifications you make.

You will be sent a letter in due course setting out the process for exchanging your restricted Common Shares for unrestricted Common Shares and enclosing the certification.

5. Special Meeting and action to be taken

Notice convening the Special Meeting to be held on 15 May 2008 at 10.00 a.m. at the offices of Financial Dynamics, Holborn Gate, 26 Southampton Buildings, London WC2A 1PB can be found at page 26 of this document.

A form of proxy for use by Shareholders at the Special Meeting is also enclosed. Whether or not you propose to attend the Special Meeting, you are requested to complete the form of proxy in accordance with the

1 The term “affiliate” means a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the Company, and generally includes officers, directors and 10 per cent. shareholders.

2 The Common Shares would be “restricted securities” within the meaning of Rule 144 under the Securities Act if they had been acquired from the Company (or an affiliate of the Company) within the 12-months immediately preceding your acquisition of the Common Shares and would bear a legend describing the applicable restrictions.

instructions printed on it and to return it to the Company's Registrars as soon as possible and in any event so as to arrive no later than 10.00 a.m. on 13 May 2008. Completion and return of the form of proxy will not preclude you from attending the Special Meeting and voting in person should you so wish.

6. Preliminary Results

The Company announced today its unaudited preliminary results for the year ended 31 December 2007. A copy of this announcement is set out in full in Part 2 of this document.

7. Outlook

AOI has made good progress in 2007 having advanced its technology, listed on AIM, raised significant finance, and attracted a powerful clinical advisory board. With the clinical trial for Ascendx™ about to start, the Company is a step closer to the market. The Directors strongly believe that the product has substantial potential and we expect to be able to rapidly penetrate a high growth and high value market. The Company's Ascendx™ system will give the clinician the ability to reduce a vertebral compression fracture and deploy bio-material uniformly in a minimally invasive approach. The Directors see the clinical data, FDA clearance of Ascendx™ and the beginning of sales to be major value drivers for the Company. Additionally the Directors believe that progress on the Company's other technology platforms, while early, is encouraging.

The Directors anticipate the growth of the organization in the near term to be dramatic, with the infrastructure to support this growth in place, or in the process of being put into place. Consequently, the next twelve months promise to be highly important in the rapid evolution of the Company's business and the Directors look to the future with confidence.

8. Recommendation

The Directors unanimously recommend that you vote in favour of the Resolutions as set out in the notice of Special Meeting, as they intend to do, or procure to do, in respect of their own beneficial holdings, which amount, in aggregate, to 4,307,469 Common Shares, representing approximately 51.1 per cent. of the current issued share capital of the Company.

Yours faithfully,

John D. Feltman

Chairman

PART 2

Announcement of Preliminary Results for year to 31 December 2007

The following is the full text of the unaudited preliminary results for AOI for the year to 31 December 2007, announced on 30 April 2008:

AOI Medical, Inc.

(“AOI” or “the Company”)

Preliminary Results

London, UK, 30 April 2008 – 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 preliminary results for the year ended 31 December 2007.

Highlights

- Successful Initial Public Offering (IPO) on the AIM market of the London Stock Exchange, raising £8 million (gross proceeds)
- FDA grants AOI approval to proceed with 60 patient confirmatory clinical study for Ascendx™ VCF Reduction System (treatment for vertebral compression fractures)
- Clinical trial for Ascendx™ to commence by mid May 2008
- Intellectual Property Portfolio expanded with three new patent applications submitted
- Clinical advisory board established and expanded
- Moved into a new 9,700 sq.ft. corporate facility that includes a 400 sq.ft. biomechanical lab

Bill Christy, CEO of AOI said:

“We have made good progress in 2007 having advanced our technology, listed on AIM, raised significant finance, and attracted a powerful clinical advisory board. With the clinical trial for Ascendx™ about to start, the Company is a step closer to the market. We strongly believe that the product has substantial potential and we expect to be able to rapidly penetrate a high growth and high value market.

“Our Ascendx™ system will give the clinician the ability to reduce a vertebral compression fracture and deploy bio-material uniformly in a minimally invasive approach. We see the clinical data, FDA clearance of Ascendx™ and the beginning of our sales to be major value drivers for the Company. Additionally the progress on our other technology platforms, while early, is encouraging.”

Enquiries:

AOI Medical Inc.

William J. Christy, CEO
Angela Johnston, CFO

Tel: +1 407 770 1800

Financial Dynamics

Ben Atwell
Susan Quigley

Tel: +44 (0) 20 783 3113

Numis Securities Ltd

David Poutney
Michael Meade

Tel: +44 (0)20 7260 1000

Overview

2007 was an important year in AOI's development. In January we were working primarily in the laboratory on product development and by the end of the first half of the year we had finalized prototypes. We now have a complete set of sterilized tools for Ascendx™, ready for clinical trials and available for commercialization in the spine market upon regulatory approval.

We also raised gross proceeds of £8 million through our IPO on the AIM market of the London Stock Exchange in June 2007 and raised our profile in the industry. This has enabled us to form a highly impressive clinical advisory board and attract a strong Board of Directors.

Ascendx™ VCF Reduction System (“Ascendx™”)

Ascendx™ is a set of tools designed to treat vertebral compression fractures of the spine caused by osteoporosis, cancer or trauma. Ascendx™ will comprise two main instruments: a cutting device that creates a cavity in the cancellous bone, and a reduction device that is used to restore the height of the fractured vertebra and which can deliver and contain the bio-material (bonding agent) in the cavity.

On 4 July 2007, the Company successfully processed its 510(k) submission for Ascendx™. At this time, it was the Company's expectation that, subject to the FDA approving the 510(k) submission by the fourth quarter of 2007, Ascendx™ would be launched by the end of 2007.

In October 2007, the FDA extended the consultation period for a further 90 days before deciding whether to give the Company approval to market Ascendx™ in the United States. This was followed on 26 October 2007, by the FDA asking AOI to conduct a clinical study of its Ascendx™ technology. The Company then expected the commercial launch of Ascendx™ in the US to be delayed to H2 2008.

AOI received final approval from the FDA on 23 April 2008, to commence a clinical trial for its Ascendx™ technology, with the study expected to start by mid-May 2008. Whilst the Company remains hopeful of obtaining FDA regulatory approval in time to launch Ascendx™ commercially before the end of Q4 2008 it is possible that commercial launch might be delayed into early 2009 based on response time from the FDA.

Ascendx™ presents an attractive market opportunity. The size of the market is estimated, to be in the region of \$400 million annually, rising to over \$700 million by 2012 (source: Cowen and Company, LLC, 18 January 2008).

BAMF Trauma (Balloon Assisted Management of Trauma Fractures)

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'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 development of the BAMF trauma products has progressed well this year, with work focussed on the design and development of the intramedullary nail. In addition, histology examination of the testing models in vivo came off station and the initial histological data demonstrates that the device is well tolerated by no tissue reaction. 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”).

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; and be easily removed by deflating the balloon, thus narrowing the diameter of the device again. This last feature should make the device particularly useful for treatment of children, for whom growth in the affected limb is impaired if a stabilisation device is left in place.

Sales of intramedullary nails in 2008, estimated by Frost and Sullivan for indications targeted by AOI, are expected to be approximately \$890 million, rising to a projected \$943 million by 2010.

Cervical Plate (Motion Preserving Cervical Dynamic Stabilization Plate)

The Cervical Plate (Motion Preserving Cervical Dynamic Stabilization 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. The current practice for severe intractable disc disease is spinal fusion, the failure rate after lumbar fusion has been reported to be as high as 40 – 50 per cent. (source: www.Spine-Health.com August 2007).

The Company is planning to obtain FDA approval via the 510(k) with supportive clinical data for Cervical Plate 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 end of 2008, AOI estimates that the initial sales of the Cervical Plate will commence in the fourth quarter of 2009 through the IDE. The Company aims to gain FDA approval, with range of motion, in the fourth quarter of 2011, when full commercialisation will begin.

The current market in the US for a cervical plate featuring dynamic stabilisation is estimated at \$410 million and is forecast to grow to almost \$500 million by 2010 (source: Bank of America LLC, 15 February 2008 and AOI internal pricing estimates).

Clinical Advisory Board

During 2007, the Company established a clinical advisory board that consists of orthopedic surgeons and neurosurgeons that have a broad range of experience and background in the development of innovative orthopedic medical devices. We view our clinical advisory board as an integral part of our product development effort and overall commercialization strategy. The opportunity to discuss and interact on a daily basis with orthopedic thought leaders, orthopaedic surgeons, interventional radiologists, and physicians who have a keen understanding of what doctors and patients require is invaluable in order that we develop novel medical devices that meet the needs of the market.

At the end of 2007, there were 10 members on AOI's clinical advisory board, and this figure has now increased to 20 members. By the end of 2008 we expect to further expand the clinical advisory board to nearly 30 members.

Intellectual Property (Patent) Protection

We believe that the protection of the Company's intellectual property is fundamental to our commercial strategy, and we actively seek to protect our proprietary technologies and individual medical devices through licensing patents or by applying for our own patents where appropriate. In the US, AOI has three granted patents (one for Ascendx™, and two relating to Cervical Plate) and seven patents pending applications (four relating to Ascendx™ or BAMF Trauma, one for Cervical Plate, and two that relate to other spinal procedures). Since medical devices in general, and the orthopaedics segment specifically, are areas that are driven by innovation, we understand that litigation is possible, and we therefore believe that the full commercial exploitation of such innovation is only possible with strong intellectual property protection. The AOI Platform has been bolstered by six patent applications, four for Ascendx™, one for BAMF Trauma and one for Cervical Plate.

Marketing and Commercializing AOI's Products

To fully commercialize our three technology platforms and products in the US in the spine, trauma, and cervical markets, we intend to follow a broad approach that includes setting up our own marketing and distribution infrastructure and proprietary sales force, and in parallel we intend to recruit a large healthcare company to act as a US co-marketing partner in each of the different markets we are pursuing. The right co-marketing partner will be able to provide increased marketing and a greater commercial presence in AOI's key markets, and given that there are approximately 21,000 practising orthopaedists in the US today, the market opportunity for AOI is without question very attractive.

Possible fundraise and Notice of Special Meeting

Because of the delays to the commercial launch of Ascendx™, resulting primarily from the FDA requiring the Company to conduct a clinical study of its Ascendx™ technology, AOI believes that it would be prudent to position the Company now to be able to raise additional capital through the issue of further common shares or convertible securities in excess of the existing issuance authorities of the Company.

The Company is currently in discussions with its advisers in relation to the precise nature and timing of any issuance of common shares and/or convertible securities, however, in deciding the final form of any such issuance, the Directors will have regard to the best interests of the shareholders of the Company.

The Company's By-laws provide that issues of shares should be first offered to existing shareholders in proportion to the Common Shares that they hold unless the shareholders have waived such pre-emption rights. The Company is therefore seeking the authority of shareholders at a Special Meeting of the Company to waive such pre-emption rights for the issuance of relevant securities up to a specified amount in order to give the Directors the maximum flexibility to attract new investors to the Company and to thereby secure the future financing of the Company.

A circular explaining why the Company is seeking to increase its existing issuance authorities and a Notice convening the Special Meeting is to be dispatched to shareholders today. The circular also explains the process for shareholders exchanging their restricted common shares for unrestricted unlegended common shares following the passing of the one-year holding period on 22 June 2008. The Special Meeting of the Company is to be held on 15 May 2008 at 10.00 a.m. at the offices of Financial Dynamics, Holborn Gate, 26 Southampton Buildings, London WC2A 1PB.

Outlook

AOI has made good progress in 2007 having advanced its technology, listed on AIM, raised significant finance, and attracted a powerful clinical advisory board. With the clinical trial for Ascendx™ about to start, the Company is a step closer to the market. We strongly believe that the product has substantial potential and we expect to be able to rapidly penetrate a high growth and high value market. Our Ascendx™ system will give the clinician the ability to reduce a vertebral compression fracture and deploy bio-material uniformly in a minimally invasive approach. We see the clinical data, FDA clearance of Ascendx™ and the beginning of our sales to be major value drivers for the Company. Additionally the progress on our other technology platforms, while early, is encouraging.

The growth of our organization in the near term is anticipated to be dramatic, with the infrastructure to support this growth in place, or in the process of being put into place. Consequently, the next twelve months promise to be highly important in the rapid evolution of AOI's business and we look to the future with confidence.

Background to AOI Medical Inc.

AOI is a medical device company focusing 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: 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 no source of direct revenue.

Expenses

Operating expenses increased by \$3.0 million to \$4.8 million versus the twelve months ended 31 December 2006 \$1.8 million.

Total research and development (“R&D”) expenditures increased significantly over the prior year from \$0.4 million to \$1.6 million. This reflected increased investment in the development of its technology including pre-clinical activities. Of the total increase, compensation, employee benefits and travel expenses account for \$0.4 million with professional fees also reflecting an increase of \$0.4 million.

Sales and marketing costs were \$607,000 (2006: \$44,000), with this increase largely due to additional headcount as the Company began establishing its marketing infrastructure in the US to commercialize its technologies. Reflective of the additional headcount is an increase of \$452,000 from prior year in compensation, employee benefits and travel expenses. Professional fees related to sales consultants, public relations and market research of \$71,000 were incurred for the first time in 2007 in support of the Company’s growth in the sales and marketing function. Sales and marketing costs are expected to escalate in 2008 as the Company prepares for the commercial launch of Ascendx™, subject to FDA approval.

Administrative expenses were \$2.5 million (2006: \$1.3 million). Of this, compensation, employee benefits and travel expenses account for \$1.6 million (2006: \$1.1 million). This growth in expense of \$0.5 million reflects \$0.2 million in stock option compensation expense which is a non-cash item. The remaining \$0.3 million reflects increased headcount and travel expenses incurred by Company personnel related to its successful admission to AIM. Professional fees grew from \$0.1 million to \$0.6 million in 2007. Board costs account for \$0.4 million of total professional fees with no costs incurred in 2006. US non-executive Board members receive their fees in shares valued at \$0.3 million in 2007. The share value is a non-cash item. The remaining increase in administrative expenses reflects the Company’s overall growth including the relocation of its head office in Q4 2007.

Net other income was \$298,000 (2006: (\$314,000)) largely due to interest income of \$305,000 related to the investment of the proceeds from the Company’s Admission to AIM (“the IPO”). Interest expense decreased from \$131,000 in 2006 to \$65,000 in 2007 as the Company’s notes payable converted to equity upon the IPO. Other changes from the prior year include an unrealized gain on trading securities of \$45,000 while 2006 included a loss on an unconsummated acquisition of \$193,000 and a loss on investment of \$1,956.

BALANCE SHEET

Cash and cash equivalents

The Company had cash and cash equivalents of \$3.4 million as at 31 December 2007 compared with \$1.0 million at 31 December 2006. The increase in cash and cash equivalents reflects the \$0.1 million, net of expenses, raised via the sale of 227,762 common shares in January 2007 and an additional \$12.2 million, net of expenses, reflecting a placing of 2,325,583 common shares from the IPO. \$7.0 million of the proceeds from the IPO were invested in trading securities and are reflected in Investments.

Investments

The Company has \$7.0 million of the \$12.2 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 \$492,000 to \$539,000. Of this net increase, \$377,000 reflects the purchase of tooling, machinery and equipment needed for research and development efforts. The remaining \$115,000 of the increase relates to the acquisition of furniture, fixture and equipment for the new leased space and headcount.

Intangible Assets, net

Intangible Assets, net is comprised of capitalized patent costs of \$112,000 (2006: \$62,000) and capitalized license costs of \$290,000 (2006: \$235,000), net of accumulated amortization of \$33,000 (2006: \$12,000). The \$50,000 increase in capitalized patent costs is related to the Company's patent portfolio. The increase in capitalized license costs over 2006 largely reflects payments of \$36,000 in cash and the grant of options to purchase up to 6,306 shares of common stock in accordance with the achievement of certain milestones. The fair market value of these options on the grant date was \$27,908 and is a non-cash item.

Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses increased to \$765,000 in 2007 from \$251,000 in 2006 largely due to an increase in R&D efforts and operations relating to the successful IPO in June 2007 as well as \$411,000 in accrued wages which were paid in January 2008.

Notes Payable and Convertible Promissory Notes

The notes payable of \$66,000 at 31 December 2006 were repaid in 2007. The Convertible Promissory notes of \$1.4 million at 31 December 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 31 December 2007 (2006: 121,000 preferred shares, 5,440,937 ordinary shares). All preferred shares converted to ordinary shares upon the Company's admission to AIM on a one-to-one basis.

STATEMENTS OF OPERATIONS

Year ended 31 December

	<i>Unaudited</i> 2007 \$'000	<i>Audited</i> 2006 \$'000	<i>Unaudited</i> <i>Cumulative</i> <i>Since Inception</i> \$'000
Revenues	–	–	–
Cost of Sales	–	–	–
Gross Profit	–	–	–
Research and development	1,578	357	2,027
Operations	113	82	195
Sales and marketing	607	44	667
General and administrative	2,487	1,312	4,451
Total operating expenses	4,785	1,795	7,340
Operating loss	(4,785)	(1,795)	(7,340)
Other income (expense) net	298	(314)	(183)
Net loss and deficit accumulated during development stage	(4,487)	(2,109)	(7,523)
Net loss per share, basic and diluted – dollars	(0.63)	(0.43)	
Weighted average common shares outstanding basic and diluted	7,126,702	4,958,782	

BALANCE SHEETS

Year ended 31 December

		<i>Unaudited</i>	<i>Audited</i>
		2007	2006
	<i>Notes</i>	\$'000	\$'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	1	3,358	957
Investments		7,045	–
Other current assets		215	18
		<hr/>	<hr/>
Total current assets		10,618	975
Property and equipment, net		539	47
Intangible assets		402	297
Other assets		31	16
		<hr/>	<hr/>
Total assets		11,590	1,335
		<hr/>	<hr/>
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable and accrued expenses		765	251
Notes payable	6	–	1,204
		<hr/>	<hr/>
Total current liabilities		765	1,455
		<hr/>	<hr/>
LONG-TERM LIABILITIES			
Deferred rent		47	–
Notes payable	6	–	260
		<hr/>	<hr/>
Total long-term liabilities		47	260
		<hr/>	<hr/>
Commitments (Notes 3 and 7)			
Stockholders' Equity(Deficit):			
Preferred stock	2	–	–
Common stock	2	1	1
Additional paid-in capital	2	18,300	2,654
Deficit accumulated during development stage	2	(7,523)	(3,035)
		<hr/>	<hr/>
Total stockholders' equity(deficit)		10,778	(380)
		<hr/>	<hr/>
Total liabilities and stockholders' equity(deficit)		11,590	1,335
		<hr/>	<hr/>

STATEMENTS OF CASH FLOWS

Year ended 31 December

	<i>Unaudited</i> 2007 \$'000	<i>Audited</i> 2006 \$'000	<i>Unaudited</i> <i>Cumulative</i> <i>Since Inception</i> \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	(4,487)	(2,109)	(7,523)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	68	29	102
Write off deferred charges and other costs	–	50	83
Loss on disposal of property and equipment	2	–	2
Loss on investment	–	2	2
Stock grants and options	436	50	486
Deferred compensation	251	–	252
Unrealized gain on investments	(45)	–	(45)
Changes in operating assets and liabilities:			
Purchases of investments	(7,000)	–	(7,000)
Other current assets	(198)	(9)	(215)
Intangible assets	(125)	(276)	(435)
Other assets	(15)	–	(18)
Accounts payable and accrued expenses	683	160	933
Deferred rent	47	–	47
Net cash used in operating activities	<u>(10,383)</u>	<u>(2,103)</u>	<u>(13,329)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	(554)	(36)	(619)
Proceeds from disposition of property and equipment	13	–	13
Net cash used in investing activities	<u>(541)</u>	<u>(36)</u>	<u>(606)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowings on convertible promissory notes	–	315	1,070
Repayment of convertible promissory note	(25)	–	(25)
Issuance of stock	13,416	1,996	16,001
Payment for placement costs	–	–	(79)
Borrowings on note payable	–	390	409
Repayment of note payable	(66)	(10)	(79)
Increase in other assets	–	–	(4)
Net cash provided by financing activities	<u>13,325</u>	<u>2,691</u>	<u>17,293</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,401	552	3,358
Cash and cash equivalents, beginning of period	957	405	–
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>3,358</u>	<u>957</u>	<u>3,358</u>
Supplemental cash flow information:			
Cash paid during the year for interest	<u>12</u>	<u>16</u>	<u>30</u>
Cash paid during the year for taxes	<u>–</u>	<u>–</u>	<u>–</u>
Supplemental disclosure of non-cash activity:			
Issuance of warrants	<u>452</u>	<u>3</u>	<u>455</u>
Conversion of convertible promissory notes and related accrued Interest to common shares upon IPO	<u>1,543</u>	<u>–</u>	<u>1,543</u>

NOTES TO THE UNAUDITED PRELIMINARY RESULTS

1. BASIS OF PREPARATION

The preliminary 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 2007 are unaudited. 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.

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.

Deferred Charges

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

In 2005 the Company paid \$50,000 to an investment bank to be the exclusive placement agent for a private placement. This fee was recorded as deferred charges as of 31 December 2005. In 2006 the investment bank did not raise the capital for this private placement memorandum and the deferred charges were expensed.

Additionally, the Company expensed further costs incurred in 2006 of \$143,359 associated with raising capital relating to a target acquisition company. The total costs expensed in 2006 were \$193,359 and are reflected in acquisition not consummated in the accompanying statements of operations for the year ended 31 December 2006.

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.

Intangible Assets

Intangible assets for the years ended 31 December 2007 and 2006, consist of capitalized patent costs of \$111,657 and \$62,313 and capitalized license costs of \$290,091 and \$234,931, net of accumulated amortization of \$32,513 and \$11,948, respectively. Amortization of existing capitalized license costs for each of the next five years will be approximately \$23,000, with approximately \$175,000 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 31 December 2007 and 2006, 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 31 December 2007 and 2006, 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 an unrealized gain on investments of \$45,324 in 2007 and realized a loss of \$1,956 on an investment during 2006.

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 were excluded for the year ended 31 December 2007 and 2006, due to the Company's net loss.

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 consolidated 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. The carrying values of notes payable and convertible promissory notes also approximate fair value since these instruments bear market rates of interest. None of these instruments are held for trading purposes.

Revenue Recognition

The Company will recognize revenue upon shipment to distributors or customers as title to such product transfers and collectibility is deemed probable.

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 11).

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.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Stock-Based Compensation

On 1 January 2006, the Company adopted the fair value recognition provisions of SFAS No. 123(R), *Share-Based Payment* ("SFAS 123R"). Prior to 1 January 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.

The Company adopted SFAS 123R using the modified prospective application method. Under this method, compensation cost recognized for the years ended 31 December 2007 and 2006, includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of 1 January 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted subsequent to 1 January 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. 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.

Recent Accounting Pronouncements

In June 2006 the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an Interpretation of SFAS No. 109, *Accounting for Income Taxes* ("FIN 48"), to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company will adopt FIN 48 as of 1 January 2008, as required. The cumulative effect of adopting FIN 48 will be recorded in retained earnings and other accounts as applicable. The Company believes that the adoption of FIN 48 will not have a material effect on the Company's financial position, results of operations, or cash flows.

2. RECONCILIATION OF CHANGES IN STOCKHOLDERS' EQUITY(DEFICIT)

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY(DEFICIT)

Year ended 31 December

	<i>Preferred Stock</i>		<i>Common Stock</i>		<i>Additional</i>	<i>Accumulated</i>	<i>Total</i>
	<i>Shares</i>	<i>Amount</i>	<i>Shares</i>	<i>Amount</i>	<i>Paid-In Capital</i>	<i>Deficit Equity(Deficit)</i>	<i>Stockholders' Equity(Deficit)</i>
BALANCE, 31 DECEMBER 2005	121	\$.01	4,660	\$.47	\$605	\$(927)	\$(321)
Sale of common stock, net	–	–	651	.06	1,996	–	1,996
Issuance of warrants and stock options	–	–	–	–	40	–	40
Stock grants to clinical and scientific advisory board members	–	–	130	.01	13	–	13
Net loss	–	–	–	–	–	(2,109)	(2,109)
BALANCE, 31 DECEMBER 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 issuance of stock options	–	–	8	.01	887	–	887
Deferred compensation	–	–	–	–	252	–	252
Net loss	–	–	–	–	–	(4,487)	(4,487)
BALANCE, 31 DECEMBER 2007	–	\$–	8,431	\$.84	\$18,300	\$(7,523)	\$10,778

3. COMMITMENTS

During 2007 the Company entered into a lease agreement for a period of three years for office space which commenced 1 October 2007, when the Company had physical control over the property. The Company is required to pay approximately \$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 per cent. 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 rent expense of approximately \$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 2007 and 2006, net of deferred lease incentive amortization of approximately \$800 in 2007, was approximately \$84,000 and \$23,800, respectively.

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of 31 December 2007, are summarized as follows:

<i>Year Ending 31 December</i>	<i>Total</i>
2008	\$190,200
2009	215,100
2010	166,000
2011	–
2012	–
Thereafter	–
	<u>\$571,300</u>

4. CAPITAL STRUCTURE

The Company's capital structure is as follows at 31 December 2007:

<i>Type</i>	<i>Par Value</i>	<i>Authorized</i>	<i>Issued and outstanding</i>
Common	\$0.0001	50,000,000	8,430,720
Preferred	\$0.0001	10,000,000	—

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 AIM in 2007 on a one-to-one basis.

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 shareholders 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 (see Note 5).

On 22 June 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 the 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 (see Note 5) as well as legal, audit, and professional consultancy fees.

On 12 June 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 per cent. 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 US 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 per cent. 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 the AIM or 22 June 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 the AIM for a minimum initial period of 12 months for an annual fee of approximately \$100,000.

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 per cent. of the share capital of the Company following the Private Placement equating to 28,948 Common Shares at an exercise price of £1.82 (\$3.64 at 31 December

2007), 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 4 January 2007 until 4 January 2012.

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 (see Note 5). During 2007 warrants to purchase 8,151 shares of common stock were exercised.

5. 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 130,000 shares of common stock to certain members of their clinical and scientific advisory board. Based on the fair market value at the date of grant of \$.10 a share, the Company recorded compensation and consultation expense, common stock, and additional-paid-in-capital of \$13,000.

The Company reserved 500,000 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 22 June 2007. 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 2007 and 2006 the Company granted options to purchase 358,917 and 165,000 shares of common stock, respectively, to employees and consultants (the "2007 grant" and the "2006 grant", respectively). Of the 2007 grant, options to purchase 50,000 shares of common stock were granted prior to the Company's IPO. All of these options were outstanding at 31 December 2007. During 2007 the Company rescinded 11,000 options from the 2007 grant and 10,000 options from the 2006 grant. Upon the Company's IPO, 20,000 shares of common stock of the 2007 grant and the remaining 155,000 common shares of the 2006 grant vested fully.

The 2007 grant included a grant to a certain licensor, pursuant to the license agreement, to purchase 6,306 shares of common stock. These options were fully vested upon issuance and their fair value of \$27,908 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 2007 grant to purchase up to 321,611 shares of common stock will vest over a period of six months to four years and are exercisable at \$4.04 to \$6.75 per share. All options vest immediately upon a change of control, as defined in the Company's Incentive Stock Option Plan.

The following table summarizes the plan's stock option activity during the years ended 31 December 2007 and 2006:

	<i>Number of Options</i>	<i>Weighted Average Exercise Price</i>
Granted	165,000	\$1.37
Forfeited	—	\$—
Outstanding at 31 December 2006	165,000	\$1.37
Granted	358,917	\$6.18
Forfeited	(21,000)	\$5.34
Outstanding at 31 December 2007	<u>502,917</u>	\$4.64

The following table shows total stock-based compensation expense:

Year Ended 31 December

	2007	2006
Research and development	\$140,062	\$39,009
Sales and marketing	13,432	65,380
General and administrative	136,604	13,356
	<u>\$290,098</u>	<u>\$117,745</u>

The options outstanding and exercisable at 31 December 2007, are as follows:

<i>Range of Exercise Prices</i>	<i>Options Outstanding</i>				<i>Options Exercisable</i>		
	<i>Number outstanding</i>	<i>Weighted Average Remaining Expected Life in Years</i>	<i>Weighted Average Exercise Price</i>	<i>Aggregate Intrinsic Value</i>	<i>Options Exercisable</i>	<i>Weighted Average Exercise Price</i>	<i>Aggregate Intrinsic Value</i>
\$0.01 – \$3.45	155,000	3.6	\$1.23	\$510,650	155,000	\$1.23	\$510,650
\$4.04 – \$5.99	112,000	4.6	5.15	1,760	20,000	5.85	–
\$6.04 – \$6.75	229,611	5.0	6.62	–	–	–	–
\$7.05 – \$7.07	6,306	4.6	7.07	–	6,306	7.07	–
	<u>502,917</u>	<u>4.5</u>	<u>\$4.60</u>	<u>\$512,410</u>	<u>181,306</u>	<u>\$1.90</u>	<u>\$510,650</u>

The fair value of the options issued in 2007 and 2006 using the Black Scholes Options Pricing Model, net of forfeitures and rescissions of \$54,827 and \$0, respectively, was determined to be \$1,327,167 and \$180,938, respectively. At 31 December 2007, approximately \$1,009,000 of deferred compensation expense remained to be expensed over a weighted average period of 1.5 years.

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

	2007	2006
Risk free interest rate	4.6%	4.75%
Expected life of options	5.2 years	10 years
Expected dividends	0%	0%
Volatility	78%	65%

Subsequent to 31 December 2007, options to purchase 17,000 shares of common stock from the 2007 grant were rescinded.

6. CONVERTIBLE PROMISSORY NOTES

During 2006 and 2005 the Company entered into several convertible promissory notes totaling \$1,070,000 with detachable warrants (see Note 5). 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 cent. per annum and were payable on demand at any time on or after the first anniversary date of the note. In 2006 the current portion of \$1,140,000 is reflected on the accompanying balance sheet net of \$540 in unamortized warrant value (see Note 5).

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

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.

The fair value of the warrants issued in conjunction with convertible notes in 2006 was \$3,242. The Company did not issue any debt during 2007. The fair value of the warrants granted was estimated at the date of issuance utilizing the Black Scholes pricing model and the following assumptions:

	<i>2006</i>
Risk free interest rate	4.75%
Expected life of warrants	5 years
Expected dividends	0%
Volatility	65%

7. 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. During 2007 and 2006, \$0 and \$61,110 was paid in cash to the licensor, respectively, 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 will be 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 31 December 2007 and 2006, \$36,333 and \$172,223 was paid in cash to the licensor, respectively. During 2007 options to purchase up to 6,306 shares of common stock were granted. The fair market value of these options on the grant date was \$27,908.

The current fair market value of common stock of the Company is determined by the Company's stock price on the AIM at the date of milestone achievement. In addition, the Company will be required to pay royalties under these agreements.

As of 31 December 2007, no amounts were due under either license agreement. The Company has capitalized approximately \$323,000 and \$247,000 associated with these agreements as of 31 December 2007 and 2006, respectively. These costs are associated with the payments defined in the agreements and the costs to acquire the agreements.

8. INCOME TAXES

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

	<i>2007</i>	<i>2006</i>
Current:		
Net operating loss carryforward	\$2,409,775	\$1,139,281
Noncurrent:		
Stock compensation	234,291	13,844
Property and equipment depreciation	(7,312)	(2,562)
R&D expenditures, net related amortization	108,135	-
Other	830	-
Net deferred tax asset before valuation allowance	<u>2,745,719</u>	<u>1,150,563</u>
Valuation allowance	<u>(2,745,719)</u>	<u>(1,150,563)</u>
Total	<u>\$-</u>	<u>\$-</u>

For financial statement purposes, no tax benefit has been reported in 2007 and 2006 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 \$6,403,000 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.

PART 3

AOI MEDICAL, INC.

*(Incorporated in the State of Delaware, US under the General Corporation Law
of the State of Delaware with registered number: 3877765)*

(the "Company")

Notice of Special Meeting

NOTICE IS HEREBY GIVEN that a special meeting of the shareholders of the Company will be held on 15 May 2008 at 10.00 a.m. at the offices of Financial Dynamics, Holborn Gate, 26 Southampton Buildings, London WC2A 1PB for the purpose of considering and, if thought fit, approval of the following proposals:

1. **Proposal to issue up to 15,000,000 Common Shares or securities convertible or exercisable into up to 15,000,000 Common Shares of the Company without the necessity of complying with the pre-emption rights set forth in Section 10.2 of the Company's By-laws.**

Our board of directors has determined that it is advisable and in the best interest of the Company and our shareholders to issue up to 15,000,000 Common Shares or securities convertible or exercisable into up to 15,000,000 Common Shares. Such issuance requires shareholder approval pursuant to Section 10.1 of the Company's By-laws, and, because the Common Shares being approved for issuance are greater than 10 per cent. of the outstanding Common Shares of the Company as of the first day of this year, such issuance further requires the waiver of the pre-emption rights granted to our shareholders pursuant to Section 10.2 of the Company's By-laws.

The Board of Directors recommends that the shareholders vote FOR this Proposal to issue up to 15,000,000 Common Shares or securities convertible or exercisable into up to 15,000,000 Common Shares without the necessity of complying with the pre-emption rights set forth in Section 10.2 of the Company's By-laws. Pursuant to Section 10.3 of the Company's By-laws, the approval of 75 per cent. of the outstanding stock of the Company is required to waive the pre-emption rights.

By order of the Board
D. Keehln Wheeler
Company Secretary

Registered office:
160 Greentree Drive
Suite 101
Dover
Delaware, 19901

30 April 2008

