

Tuesday 27 April 2010

Lifeline Scientific, Inc
("Lifeline" or "the Company")

Results for the Twelve Months Ended 31 December 2009

Full Commercial Product Launch Triggers Transformational Performance

Delivers Maiden Full Year Operating Profit

Lifeline Scientific, the medical technology company, announces results for the twelve months ended 31 December 2009. Lifeline is focused on commercialising its LifePort[®] Kidney Transporter, an advanced organ preservation and transport system designed to address the global challenge of human donor organ shortages.

Financial Highlights

- Revenues increase by 120% to US\$18.3 million (2008: US\$8.3 million)
- US\$16.2 million of revenue stemmed from sales of single use consumable items (2008: US\$5.6 million)
- Gross margin increased to 60.8% (2008: 49.8%)
- Maiden Operating Profit of US\$2.8 million (2008: Loss of US\$3.6 million)
- Cash of US\$3.1 million at period end

Operational Highlights

- Landmark study published in the New England Journal of Medicine demonstrates clinical benefits of LifePort versus current practice
- Publication of the study data enabled commencement of full scale commercial roll out
- Successful transition in US from introductory pricing to value-based commercial pricing
- Efforts launched in Strategic Europe to establish payor reimbursement for LifePort family of products
- Approximately 350 LifePorts are now in use globally; 30 new units sold in 2009
- LifePorts are now used in 100 transplant centres, across 15 countries, including new territories such as Italy, Portugal, Poland and Saudi Arabia
- Well received launch of SPS-1 hypothermic flush solution helps establish company as one-stop provider for pre-transplant organ preservation and donor care resources
- R&D focused on product line expansion

David Kravitz, Chief Executive of Lifeline, said:

“Lifeline has experienced a transformational year in 2009 as underlined by recording our maiden profit. We are confident that through continued focus on sales growth, cost control, market-driven technological advancements and realising economies of scale, we will achieve another year of good progress.”

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About the LifePort Kidney Transporter

Created with the challenges of organ recovery and transport in mind, LifePort Kidney Transporter is designed to provide improved kidney preservation, evaluation and transport prior to transplantation. LifePort provides a sealed, sterile, protected environment where a solution is gently pumped through the kidney at cold temperatures to minimize damage while the organ is outside the body. LifePort is lightweight and portable, allowing organs to be perfused from the time of recovery until transplant. It is designed to travel unaccompanied by land or air, safely transporting the kidneys across town or between countries. While the kidney is being perfused, the LifePort records data on temperature, flow rate vascular resistance and pressure every 10 seconds providing surgeons with additional data prior to transplant.

About Lifeline Scientific Inc.

Lifeline Scientific, Inc. is a Chicago-based global medical technology company with European headquarters located in Brussels. Its primary focus is to commercialise its FDA approved, CE marked, clinically validated and revenue generating LifePort Kidney Transporter. Devices for preservation of the heart, lung pancreas and liver are in late stage pre-clinical development.

Chairman's Statement

I am delighted to report that in 2009 Lifeline Scientific recorded its first full-year operating profit and positive cash flow. This important financial achievement, together with The New England Journal of Medicine's publication of the positive results of the Machine Preservation Trial of our LifePort Kidney Transporter, made 2009 a truly milestone year in the history of the Company.

LifePort's value in improving the viability of donated kidneys is becoming widely recognised in the world's transplantation centres: by the end of 2009 it was being used in 100 centres in 15 countries. Revenue in 2009 more than doubled to US\$18.3 million (2008: US\$8.3 million) while operating profit increased to US\$2.8 million (2008: loss of US\$3.6 million). The marked increase in revenue was primarily the result of a mix of increased product sales and our transition from pilot/introductory pricing to commercial pricing for our LifePort product line. Our ability to maintain operating expenses at approximately US\$8.3 million also made an important contribution to our full-year profit. Operating profit improved significantly to US\$2.8 million and at the year end the Company had cash in hand of US\$3.1 million. Gross margin also increased to 60.8% (2008: 49.8%).

The Machine Preservation Trial (MPT), which was led by an independent, 16-member steering committee of leading surgeon-scientists from Germany, Belgium and The Netherlands was a landmark clinical trial comparing the benefits to patients of donated kidneys preserved in our LifePort with those that had been preserved by the traditional icebox method.

The study demonstrated, among other key findings, that LifePort machine perfusion significantly reduces the risk of delay in transplanted kidneys beginning to function and, where delay does occur, it reduces its duration. The study also found that the chance of graft failure after one-year post transplant is materially reduced. A subsequent publication concluded that machine preservation may now be viewed as being of significant value in improving the odds of successful kidney transplantation as well as being a cost-effective alternative to conventional cold static storage.

In June 2009, we increased market liquidity when our outstanding shares were dematerialised, enabling them to be traded on CREST, the UK's electronic trading system. By the end of the year, our share price had increased by a notable 169%, to 105p. The Company does not intend to pay a dividend at the current time, but plans to invest its profits in the continued development of the business.

In common with other pioneering businesses, our success depends to a considerable extent on the skills and commitment of our management and staff. We are grateful for their hard work and the contribution they made to the Company in the past year.

During 2009, we made two important additions to strengthen our management team. Lisa Kieres, a highly-experienced CFO, took the post of Lifeline's Chief Financial Officer after spending several years as a senior financial adviser to, and as acting CFO for, our Company. In addition, Gunther Vanwezer, a native of Belgium and an experienced European medical-devices sales manager, was appointed to our Brussels-based office of Director of European Sales for the LifePort product line.

Outlook

During 2009, we sold LifePort into a number of new territories and began to investigate the potential which exists for our products in Brazil, China and other new international markets.

We will continue the innovative development of our LifePort Kidney Transporter, with the aim of incorporating new, market-driven features and benefits, and will also continue with our promising efforts to develop LifePort for liver and pancreas.

I am excited about Lifeline Scientific's future and look forward with confidence to the next stages of the Company's development.

Chief Executive Officer's Review

Lifeline Scientific's core business is to develop technology that helps improve the quality and quantity of organs, tissues and cells donated for transplantation and, through that, to improve medical outcomes and the quality of life for recipients of transplants.

2009 began with a strong validating event for our company's mission and our lead product, our LifePort Kidney Transporter. On 1 January 2009, The New England Journal of Medicine (NEJM), widely regarded as one of the world's most influential medical journals, published the positive results of the Machine Perfusion Trial (MPT). This 672-patient study, conducted by independent clinical investigators in Belgium, Germany and The Netherlands, was the first large-scale, prospective, randomised study to evaluate the machine preservation of kidneys for transplant with the traditional icebox method.

The trial demonstrated that kidneys preserved by LifePort machine preservation delivered superior outcomes. Among the key findings, donor kidneys preserved and transported in LifePort were found to be 43% less likely to experience a delay in the recovery of kidney function after transplantation and 48% less likely to fail within one year post-transplant. With regard to kidneys from older and less healthy donors (a growing worldwide trend) these kidneys were shown to be 65% less likely to fail post-transplant. It was also discovered that for those kidneys which developed delayed renal function, those which had been preserved by LifePort had significantly better post-transplant outcomes.

These results translate into improved medical outcomes and quality of life for recipients of kidney transplants, and help to lower overall costs by reducing medical complications during post-transplant patient care.

The NEJM's publication of the results of the MPT enabled us to begin our evidence-based commercial roll-out of our LifePort Kidney Transporter. This was supported during 2009 by the publication of a number of other independently-written articles on MPT and LifePort-related organ preservation in prominent peer-reviewed medical journals. In addition, the Company was an exhibitor and/or sponsor of MPT-related evidence presentations at major transplant symposiums and trade shows worldwide. This growing body of scientific evidence has enabled our LifePort Kidney Transporter to become the preferred method for donor organ preservation in many leading transplant programmes, and to gain consideration as a potential new standard of care.

As a result of LifePort's commercial launch, the Company's operational and financial performance exceeded expectations on a number of fronts: 30 new LifePorts were sold around the world and, at the year end, 350 LifePorts were established in more than 100 renal transplant centres. During the year we sold LifePorts in a number of new territories, including Italy, Portugal, Poland and Saudi Arabia, and achieved regulatory clearance to commence sales in Australia and New Zealand.

More importantly, we were successful in making the transition from pilot/introductory pricing in the US to a reimbursement-supported commercial pricing structure, both for LifePort and its related consumable items. Given the challenging US healthcare environment, this further demonstrates the growing recognition of the broad range of benefits of using the LifePort Kidney Transporter.

We were also pleased to see the steady adoption of our SPS-1 hypothermic flush solution, which was

formally launched at the start of 2009. By the year end the significant progress we had made in penetrating the North American market (regulatory clearance is pending in the EU) showed a promising momentum into 2010. With the addition of SPS-1 to our family of products, we are now well positioned to serve as a one-stop provider for most of the resources needed for pre-transplant renal preservation and donor care.

The market

There are an estimated 1.5 million people with end stage renal disease (ESRD), the leading driver of kidney transplants, throughout the world. Greater longevity and, particularly, the increased incidence of diabetes are predicted to result in that number doubling over the next ten years. Paradoxically, increased longevity is also one of the factors that limits the number of higher quality organs available for transplant.

Transplantation, the preferred medical option for treating ESRD, is recognised as not only providing patients with a better quality of life and longer life expectancy, but is also significantly more cost effective than the alternative therapy, chronic dialysis. It is, however, severely constrained by the quantity and quality of organs that are obtainable.

The limited number of organs available from younger and otherwise healthy donors has increased the need to accept organs from older and/or less healthy donors, or from donors who have died suddenly from cardiac arrest – donors respectively referred to as “expanded criteria” (ECD) and “donation after cardiac death” (DCD). Machine preservation is considered to be the medically preferred preservation mode for kidneys from these donors.

The future

To date, the majority of LifePort and related product sales have been in North America and generally indicated for use with ECD and DCD kidneys. Following clinical evidence from the MPT, several leading renal transplant programmes have also selected LifePort as a standard of preservation for younger/healthier, “standard criteria” donor kidneys (SCDs). This suggests a further opportunity for growth and, as a result, we will be focusing on promoting the medical evidence supporting this broader clinical application.

We are also in the process of establishing the adoption of LifePort throughout strategic Europe – the countries of which have a combined population of more than 300 million and a transplant waiting list and other market drivers comparable with those of North America. Europe-wide establishment of the reimbursement of medical costs for LifePort will be a key element in determining adoption and usage. To this end, we have engaged expert advisers to lead our ongoing reimbursement efforts and expect to make meaningful progress in 2010.

Our Brussels-based facility gives us a strong presence in Europe, where we are managing an installed base of pilot LifePort programmes at approximately 35 transplant centres while forging relationships with key practice leaders throughout the region. We are also engaged in business development efforts in Brazil and China, which are both potentially substantial markets for transplant technology.

With an eye towards product-line expansion, an increasing body of encouraging scientific findings and market conditions inspires us to continue our research and development into proprietary products for the improved preservation and transport of other organs, including liver and pancreas. Federal grant funding of Cell & Tissue Systems research centre is playing an important role in furthering these initiatives. In addition, the development of the next generation LifePort Kidney Transporter is under way, and is being designed to offer important new market-driven features and product benefits.

Overall, we are encouraged by our progress in 2009 in building a strong platform for growth during 2010 and beyond. Delivering our first full-year profit and positive cash flow was an important financial milestone and we are determined to sustain that momentum. We are confident that through a continued focus on sales growth, cost control and market-driven technological advancements, together with realising new economies of scale, we will achieve another year of good progress.

Consolidated Balance Sheets

| | 31 December 2009 US\$ | 31 December 2008 US\$ |
|---|--------------------------|--------------------------|
| Current Assets | | |
| Cash and cash equivalents | 3,068,942 | 1,886,489 |
| Receivables | | |
| Customers (Net of allowance for doubtful accounts of US\$2,938 and US\$0 in 2009 and 2008, respectively) | 2,530,902 | 1,378,887 |
| Employees | 5,039 | 2,003 |
| Grant | 225,127 | 29,156 |
| Notes receivable (Net of unamortised discount of US\$6,255 and US\$22,261 in 2009 and 2008, respectively) | 113,745 | 93,994 |
| Inventories | 762,366 | 803,478 |
| Prepaid expenses and deposits | 238,119 | 174,652 |
| Total Current Assets | 6,944,240 | 4,368,659 |
| Other Assets | | |
| Property and equipment (Net of accumulated depreciation and amortisation) | 968,648 | 732,298 |
| Notes receivable (Net of portion included in current assets) | — | 113,745 |
| Intangibles (Net of accumulated amortisation) | 1,371,148 | 1,159,768 |
| Goodwill | 64,710 | 64,710 |
| Other | 77,924 | — |
| Total Other Assets | 2,482,430 | 2,070,521 |
| Total Assets | 9,426,670 | 6,439,180 |
| Current Liabilities | | |
| Accounts payable | 1,362,973 | 1,452,854 |
| Long-term debt due within one year | 4,414 | 50,024 |
| Capital lease obligations due within one year | 33,265 | 15,103 |
| Accrued expenses | | |
| Accrued interest – due within one year | — | 20,431 |
| Salaries and other compensation | 668,563 | 561,216 |
| Other | 195,298 | 519,812 |
| Deferred revenue | 135,209 | 111,443 |
| Total Current Liabilities | 2,399,722 | 2,730,883 |
| Non-current Liabilities | | |
| Warrant liabilities | 129,613 | — |
| Long-term debt (Net of portion included in current liabilities) | 1,077,692 | 966,884 |
| Deferred rent | 229,626 | — |
| Accrued interest (Net of portion included in current liabilities) | 297,767 | 279,585 |
| Capital leases (Net of portion included in current liabilities) | 49,066 | 8,871 |
| Total Non-current Liabilities | 1,783,764 | 1,255,340 |
| Total Liabilities | 4,183,486 | 3,986,223 |
| Lifeline Scientific, Inc. Stockholders' Equity | | |
| Common stock, US\$.01 par value; authorised – 30,000,000 shares; issued and outstanding 17,446,704 and 15,792,332 shares in 2009 and 2008, respectively | 174,467 | 157,923 |
| Additional paid-in capital | 87,415,833 | 87,320,921 |
| Other accumulated comprehensive loss | (282,950) | (264,102) |
| Accumulated deficit | (81,826,942) | (84,761,785) |

| | | |
|---|------------------|------------------|
| Total Lifeline Scientific, Inc. Stockholders' Equity | 5,480,408 | 2,452,957 |
| Non-controlling interest | (237,224) | — |
| Total Stockholders' Equity | 5,243,184 | 2,452,957 |
| Total Liabilities and Stockholders' Equity | 9,426,670 | 6,439,180 |

Consolidated Statements of Operations

| | Year ended 31 December 2009 US\$ | Year ended 31 December 2008 US\$ |
|--|--|--|
| Revenue | | |
| Product sales and fee revenue | 17,016,973 | 7,157,611 |
| Contract revenue | — | 48,002 |
| Grant revenue | 1,309,696 | 1,127,157 |
| Total Revenue | 18,326,669 | 8,332,770 |
| Cost of Revenue | 7,175,977 | 4,185,201 |
| Gross Profit | 11,150,692 | 4,147,569 |
| Operating Expense | | |
| Research and development | 328,311 | 847,445 |
| Selling, general and administrative | 8,046,105 | 7,938,828 |
| Income from life insurance proceeds | — | (1,000,000) |
| Loss on abandonment of patents | — | 201,200 |
| Gain on sale of patent | — | (254,414) |
| (Gain) loss from disposal of property and equipment | (39,651) | 12,132 |
| Total Operating Expense | 8,334,765 | 7,745,191 |
| Income (Loss) from Operations | 2,815,927 | (3,597,622) |
| Other (Income) Expense | | |
| Change in fair value of warrants | 4,676 | — |
| Interest expense | 52,211 | 118,173 |
| Interest income | (16,579) | (49,447) |
| Total Other Expense, Net | 40,308 | 68,726 |
| Income (Loss) Before Income Taxes | 2,775,619 | (3,666,348) |
| Income Tax Expense | 78,000 | — |
| Net Income (Loss) | 2,697,619 | (3,666,348) |
| Less: Net Loss Attributable to Non-controlling Interest | 237,224 | — |
| Net Income (Loss) Attributable to Lifeline Scientific, Inc. | 2,934,843 | (3,666,348) |

**Consolidated Statement of Changes in Stockholders' Equity
Years Ended 31 December 2009 and 2008**

Lifeline Scientific, Inc. Stockholders

| | Total US\$ | Shares | Amount US\$ | Additional Paid-in Capital US\$ | Other Accumulated Comprehensive Loss US\$ | Accumulated Deficit US\$ | Non- controlling Interest US\$ |
|---|-------------------------|--------------------------|-----------------------|--|---|--------------------------------|---|
| Balance, 31 December 2007 | <u>6,272,538</u> | <u>15,721,340</u> | <u>157,213</u> | <u>87,500,564</u> | <u>(289,802)</u> | <u>(81,095,437)</u> | <u>—</u> |
| Issuance of common shares related to cashless warrant exercise | — | 70,992 | 710 | (710) | — | — | — |
| Professional fees associated with IPO | (203,590) | — | — | (203,590) | — | — | — |
| Stock based compensation | 24,657 | — | — | 24,657 | — | — | — |
| Foreign currency translation | 25,700 | — | — | — | 25,700 | — | — |
| Net loss | (3,666,348) | — | — | — | — | (3,666,348) | — |
| Balance, 31 December 2008 | <u>2,452,957</u> | <u>15,792,332</u> | <u>157,923</u> | <u>87,320,921</u> | <u>(264,102)</u> | <u>(84,761,785)</u> | <u>—</u> |
| Cumulative effect of reclassification of warrants | (1,485,647) | — | — | (1,485,647) | — | — | — |
| Balance, 1 January 2009, as adjusted | <u>967,310</u> | <u>15,792,332</u> | <u>157,923</u> | <u>85,835,274</u> | <u>(264,102)</u> | <u>(84,761,785)</u> | <u>—</u> |
| Issuance of common stock related to cashless warrant exercise | 1,360,710 | 1,654,372 | 16,544 | 1,344,166 | — | — | — |
| Issuance of warrant in conjunction with bank financing | 16,493 | — | — | 16,493 | — | — | — |
| Stock based compensation | 219,900 | — | — | 219,900 | — | — | — |
| Foreign currency translation | (18,848) | — | — | — | (18,848) | — | — |
| Net income | 2,697,619 | — | — | — | — | 2,934,843 | (237,224) |
| Balance, 31 December 2009 | <u>5,243,184</u> | <u>17,446,704</u> | <u>174,467</u> | <u>87,415,833</u> | <u>(282,950)</u> | <u>(81,826,942)</u> | <u>(237,224)</u> |

| | 31 December 2009 | 31 December 2008 |
|---|-------------------------|-------------------------|
| | US\$ | US\$ |
| Net Income (Loss) | 2,697,619 | (3,666,348) |
| Foreign Currency Translation | (18,848) | 25,700 |
| Comprehensive Income (Loss) | 2,678,771 | (3,640,648) |
| Comprehensive Loss Attributable to Non-controlling Interest | (237,224) | — |
| Comprehensive Loss Attributable to Lifeline Scientific, Inc. | 2,915,995 | (3,640,648) |

Consolidated Statements of Cash Flows

| | Year Ended 31 December 2009 US\$ | Year Ended 31 December 2008 US\$ |
|--|--|--|
| Cash Flows from Operating Activities | | |
| Net income (loss) | 2,697,619 | (3,666,348) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities | | |
| Depreciation | 241,719 | 376,688 |
| Amortisation | 67,125 | 80,660 |
| Amortisation of discount on notes receivable | (16,006) | (380) |
| Change in fair value of warrants | 4,676 | — |
| Stock based compensation | 219,900 | 24,657 |
| Issuance of warrant in connection with bank financing | 16,493 | — |
| (Gain) loss on disposal of property and equipment | (39,651) | 12,132 |
| Provision for losses on receivables | 2,938 | — |
| Gain on sale of patent | — | (254,414) |
| Loss on abandonment of patents | — | 201,200 |
| (Increase) decrease in | | |
| Receivables | (1,353,960) | (546,252) |
| Inventories | 41,112 | (386,838) |
| Prepaid expenses and deposits | (63,467) | (1,607) |
| Other | (8,559) | — |
| Increase (decrease) in | | |
| Accounts payable | (89,881) | (3,555,471) |
| Accrued expenses | (217,167) | 47,909 |
| Accrued interest | (11,153) | 113,751 |
| Deferred revenue | 23,766 | (10,672) |
| Deferred rent | 19,116 | — |
| Total Adjustments | (1,162,999) | (3,898,637) |
| Net Cash Provided by (Used in) Operating Activities | 1,534,620 | (7,564,985) |
| Cash Flows from Investing Activities | | |
| Payments of legal fees associated with patent filings | (278,505) | (226,115) |
| Capital expenditures | (155,436) | (100,565) |
| Proceeds from sale of property and equipment | 40,795 | 20,116 |
| Proceeds from sale of patent | 110,000 | 48,001 |
| Net Cash Used in Investing Activities | (283,146) | (258,563) |
| Cash Flows from Financing Activities | | |
| Repayments under capital lease obligations | (31,397) | (24,210) |
| Principal payments of long-term debt | — | (35,175) |
| Payments of financing fees | (69,365) | — |
| Proceeds from stock subscription receivable | — | 9,616,001 |
| Payment of legal fees relating to IPO | — | (82,488) |
| Net Cash (Used in) Provided by Financing Activities | (100,762) | 9,474,128 |
| Effect of Foreign Currency Exchange Rate Changes on Cash | 31,741 | 3,917 |
| Net Increase in Cash and Cash Equivalents | 1,182,453 | 1,654,497 |
| Cash and Cash Equivalents, Beginning of Year | 1,886,489 | 231,992 |
| Cash and Cash Equivalents, End of Year | 3,068,942 | 1,886,489 |

Note 1 – Industry Operations

Lifeline Scientific, Inc. (the Company), is a U.S. corporation whose common shares trade publicly on the AIM Market on the London Stock Exchange (AIM:LSI.c and LSI.s). The Company is in the business of delivering, to targeted medical markets, a portfolio of related proprietary technologies, which include devices, solutions and protocols designed to maximise the use and availability of organs, tissues and cells.

Note 2 – Summary of Significant Accounting Policies

Principles of Consolidation

The Company was incorporated in the state of Delaware as Organ Recovery Systems, Inc. on 1 October 1998. On 20 December 2007, the Company changed its name to Lifeline Scientific, Inc. The Company is consolidated with the following subsidiaries:

Bowman Research, Ltd.* (inactive; dissolved in March 2009)

Bowman Research, Inc.*

ORS Europe, NV*

Cell and Tissue Systems, Inc.**

Organ Recovery Systems, Inc.*

* A wholly owned subsidiary

** 49% owned

Intercompany balances and transactions have been eliminated in consolidation.

The Consolidation Topic of accounting principles generally accepted in the United States of America (US GAAP) requires consolidation by the primary beneficiary where the variable interest entity does not have sufficient equity at risk to finance its activities without additional subordinated financial support from other parties. The application of this guidance resulted in the consolidation of Cell and Tissue Systems, Inc. (CTS), which was created in 2005 and was deemed to be a variable interest entity. CTS was primarily formed to meet regulatory requirements in order to enhance its ability and capacity to apply for funding from available government sources. The Company contributed US\$490 for the 49% ownership needed to form the variable interest entity. CTS has an accumulated deficit as of 31 December 2009 and 2008.

On 1 January 2009, the Company adopted a new accounting standard under US GAAP that establishes accounting and reporting standards for non-controlling interests in a subsidiary in consolidated financial statements. In accordance with the requirements of this standard, the Company has provided a new presentation in the consolidated financial statements to separately classify the non-controlling interest of CTS within the equity section of the consolidated balance sheets and to separately report the amounts attributable to controlling and non-controlling interests in the consolidated statements of operations for all periods presented. Losses prior to 2009 absorbed by Lifeline Scientific, Inc. as the primary beneficiary of CTS, remain included in accumulated deficit of Lifeline Scientific, Inc. as required under this new standard. Had the Company continued to absorb the losses of CTS in 2009, the net income attributable to Lifeline Scientific, Inc. would have been US\$2,697,619.

Cash and Cash Equivalents

The Company considers all money market accounts and short-term investments with an original maturity of three months or less to be cash equivalents. The majority of cash and cash equivalents as of 31 December 2009 and 2008 were held at a single financial institution, and the balances held at times may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

Receivables

Receivables are carried at original invoice or closing statement amount less estimates made for doubtful receivables. Management determines the allowances for doubtful accounts by reviewing and identifying troubled accounts on a monthly basis and by using historical experience applied to an aging of accounts. A receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 90 days. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

Inventories

Inventories are valued at the lower of cost (first-in, first-out) or market.

Depreciation and Amortisation

The Company's policy is to depreciate or amortise the cost of furniture and equipment over the estimated useful lives of the assets using the straight-line method. The cost of leasehold improvements is amortised over the estimated useful lives, or the applicable lease term, if shorter. The cost of tooling and moulds is depreciated by the units of production method.

| | <u>Years</u> |
|-------------------------------|-----------------------------|
| Grant assets | 3-5 |
| Computer equipment | 3-5 |
| Furniture and fixtures | 5-7 |
| Equipment under capital lease | 5-7 |
| Laboratory equipment | 5-7 |
| Leasehold improvements | 5-12 |
| Tooling and moulds | Varies by units produced |
| Vehicles | 5 |

Intangibles

The cost of intangible assets is being amortised over the remaining lives of the assets acquired as follows:

| | <u>Years</u> |
|---------|--------------|
| Patents | 17 |
| Other | 5 |

Legal fees associated with filings for patents that are pending are capitalised, if management believes that it is probable that such patent applications will be successful. Patent costs are not amortised until the patent is obtained.

Deferred Rent

Minimum rent expense is recognised over the term of the lease. The Company recognises minimum rent starting when possession of the property is taken from the landlord. When a lease contains a predetermined fixed escalation of the minimum rent, rent expense is recognised on a straight-line basis and any difference between the recognised rent expense and the amounts payable under the lease is reported as deferred rent in the consolidated balance sheet. During 2009, the Company received a tenant allowance upon entering into its facility lease in Itasca, Illinois, which is recorded as a component of deferred rent and amortised as a reduction to rent expense over the term of the lease. Future payments for common area maintenance, insurance, real estate taxes, and other occupancy costs to which the Company is obligated are excluded from minimum lease payments.

Fair Value of Financial Instruments

US GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. US GAAP describes three approaches to measuring the fair value of assets and liabilities: the market approach, the income approach and the cost approach. Each approach includes multiple valuation techniques. US GAAP does not prescribe which valuation technique should be used when measuring fair value, but does establish a fair value hierarchy that prioritises the inputs used in applying the various techniques. Inputs broadly refer to the assumptions that market participants use to make pricing decisions, including assumptions about risk. Level 1 inputs are given the highest priority in the hierarchy while Level 3 inputs are given the lowest priority. Assets and liabilities carried at fair value are classified in one of the following three categories based on the nature of the inputs to the valuation technique used:

- Level 1 - Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 - Observable market-based inputs or unobservable inputs that are corroborated by market data.
- Level 3 - Unobservable inputs that are not corroborated by market data. These inputs reflect management's best estimate of fair value using its own assumptions about the assumptions a market participant would use in pricing the asset or liability.

Revenue Recognition

Product sale revenue is recognised upon shipment of product to the client. Service fee revenues are recognised when services are performed.

Contract research service revenue is recognised using the proportional performance model. Revenue from such contracts is recognised as the services are performed using the straight-line method over the life of the contract. The contract life is deemed to be from the signing of the contract until delivery of the final report. This service period will vary, but on average will range from one to nine months in length. The Company periodically reviews its estimates of contract life and modifies them as appropriate.

The Company does not recognise revenue with respect to start-up costs or activities associated with contracts, which include contract and scope negotiation and feasibility analysis. The costs for these activities are expensed as incurred.

Deferred and unbilled revenue is recognised in the consolidated balance sheets. In most cases, a portion of the contract fee revenue is paid at the time the study is initiated. These advances are deferred and recognised on a straight-line basis over the contract term as the services are performed. Unbilled services are at times recorded for revenues recognised to date and relate to amounts that are currently unbillable to the client pursuant to contractual terms. The primary source of deferred revenue is extended warranties sold on the Company's Lifeport product. Revenue relating to these transactions is recognised over the term of the extended warranty period.

Government grant revenues are recognised when earned. Grant revenues are deemed earned to the extent of the total allowable expenditures incurred, which are specified in the grant contract.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of property and equipment, bad debts, intangibles and accrued expenses for financial and income tax reporting. The 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. The carrying value of the Company's deferred tax assets is dependent upon its ability to generate sufficient taxable income in the future. The Company has established a full valuation allowance against its net deferred tax assets for continuing operations to reflect the uncertainty of realising the deferred tax benefits, given historical losses. A valuation allowance is required when it is more likely than not that all or a portion of a deferred tax asset will not be realised. The Company is subject to U.S. Federal, state and local taxes as well as foreign taxes in Belgium.

The Company accounts for unrecognised tax benefits in accordance with US GAAP, which prescribes a more likely than not threshold for financial statement presentation and measurement of a tax position taken or expected to be taken in a tax return.

Stock Options

In accordance with US GAAP, the Company accounts for the cost of employee services received in exchange for an award of equity instruments utilising the grant-date fair value of the award. Share-based awards that do not require future service (i.e., vested awards) are expensed immediately. Share-based employee awards that require future service are amortised over the relevant service period.

Derivative Financial Instruments

The Company does not use derivative financial instruments to hedge exposures to cash flow risks or market risks. However, certain financial instruments, such as the warrants described in Note 7, have been classified as liabilities effective 1 January 2009, upon adoption by the Company of the guidance for determining whether an equity-linked financial instrument (or embedded feature) is indexed to an entity's own stock. Although the Company's warrants are indexed to the common stock of the Company and were previously classified in stockholders' equity, they do not meet the exception as clarified under US GAAP effective 1 January 2009 because the warrants are also indexed to a foreign currency, as the common stock trades in British pound sterling.

As a result, the warrants are not considered indexed to the Company's own stock, and as such, all future changes in the fair value of these warrants will be recognised currently in earnings until such time as the warrants are exercised or expire. Upon the adoption of this guidance, the Company reclassified the fair value of the warrants from stockholder's equity to a liability. See Note 7.

Management Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Research and Development

Expenditures relating to the development of new products and procedures are expensed as incurred.

Foreign Currency Translation

The financial position and results of operations of the Company's foreign subsidiaries in Europe are measured using the subsidiary's local currency as the functional currency. Assets and liabilities of the foreign subsidiaries are translated to U.S. dollars using exchange rates in effect as of the consolidated balance sheet dates. Income and expense items are translated at monthly average rates of exchange. The resultant translation gains or losses are included in the components of stockholders' equity designated as other comprehensive income (loss).

Subsequent Events

The Company has evaluated subsequent events through 20 April 2010, the date the financial statements were available to be issued. See Note 18.

Reclassifications

Certain amounts in the 2008 financial statements have been reclassified to conform to the current period presentation.

Note 3 – Notes Receivable

The Company sold a patent during 2008 and accepted a note from the purchaser in lieu of a cash settlement. The patent was sold for US\$300,000 payable by a US\$60,000 down payment and 24 installments of US\$10,000. The Company recorded the present value of the note using a 10% discount rate, which the Company believes fairly represents the borrowing rate the purchaser may have obtained from an alternative lender at the date of the transaction. The unamortised discount on the note receivable was US\$6,655 and US\$22,261 as of 31 December 2009 and 2008, respectively, and the Company recognised interest related to the note of US\$16,006 and US\$380 during 2009 and 2008, respectively. The note receivable is collateralised by the patent ownership. As part of the agreement, the Company was granted a perpetual, exclusive, royalty-free license in the fields of *ex vivo* organ and tissue treatment, transplantation and preservation to make, use, import, offer to sell and sell the compositions and methods now or in the future claimed by this patent or any reissue patent or re-examination certificate based on the patent.

Note 4 – Inventories

| | 2009 | 2008 |
|-----------------|---------|---------|
| | US\$ | US\$ |
| Medical devices | 762,366 | 749,374 |
| Supplies | — | 54,104 |
| | 762,366 | 803,478 |

Note 5 – Property and Equipment

| | 2009 | 2008 |
|---|-------------|-------------|
| | US\$ | US\$ |
| Computer equipment | 218,724 | 192,922 |
| Furniture and fixtures | 321,928 | 406,170 |
| Equipment under capital lease | 231,510 | 224,166 |
| Laboratory equipment | 1,349,266 | 1,379,147 |
| Leasehold improvements | 784,239 | 929,763 |
| Tooling and moulds | 540,089 | 540,089 |
| Vehicles | 60,439 | 23,498 |
| | 3,506,195 | 3,695,755 |
| Accumulated depreciation and amortisation | (2,537,547) | (2,963,457) |
| | 968,648 | 732,298 |

Note 6 – Intangibles

Intangible assets consist of the following:

| | 2009 | 2008 |
|--------------------------------|-----------|-----------|
| | US\$ | US\$ |
| Patents issued | 794,782 | 745,959 |
| Patents pending | 1,054,567 | 824,885 |
| | 1,849,349 | 1,570,844 |
| Less: Accumulated Amortisation | (478,201) | (411,076) |
| | 1,371,148 | 1,159,768 |

During the years ended 31 December 2009 and 2008, the Company abandoned patents issued and patents pending with an original cost of US\$0 and US\$294,877, respectively.

The following schedule by year represents future intangible amortisation, assuming patent pending costs will be reclassified as patents issued and amortisation will begin at the midpoint of the following year:

| Year Ending 31 December: | US\$ |
|--------------------------|-----------|
| 2010 | 72,993 |
| 2011 | 104,102 |
| 2012 | 104,102 |
| 2013 | 103,231 |
| 2014 | 99,559 |
| Thereafter | 887,161 |
| | 1,371,148 |

Note 7 – Warrants

At various times from July 2004 through June 2007, the Company issued currency denominated warrants in the amount of US\$7,789,505, in connection with the issuance of convertible promissory notes, all of which were converted into common stock at the IPO. The majority of the warrants remaining outstanding at the date of the IPO were not affected by the reverse stock split in accordance with the agreements. The warrants expire at various dates from March 2009 to August 2011. The determination of the actual number of common shares the warrants are convertible into at any point in time is derived by formula per the individual warrant agreements. As these are currency denominated warrants, the number of common shares ultimately issued upon exercise will vary due to foreign currency translation adjustments between the British pound sterling and the U.S. dollar.

In December 2007 and May 2008, in conjunction with the IPO, the Company issued warrants, which are convertible into common stock of the Company. The warrant holder may exercise each warrant held to purchase a share of common stock at an exercise price of £1.95 (or US\$3.15 and US\$2.82 as of 31 December 2009 and 2008, respectively), or as adjusted as defined by the agreement. The 2007 and 2008 warrant grants expire in January 2011 and March 2011, respectively. The fair value of the stock at grant date was less than the exercise price of the warrants. The number of common stock equivalent warrants granted was 2,570,884 and the value of the warrants on the date of grant was determined to be US\$0 for the years ended 31 December 2009 and 2008 by the Black-Scholes option pricing model.

In August of 2009, in conjunction with the terms of the Silicon Valley Bank Loan and Security Agreement, the Company issued a warrant, convertible into 51,874 shares of common stock of the Company. The warrant is exercisable for a period of 5 years, at a share price of US\$.6506, the trailing 20-day market value of the Company's common stock at the grant date. The value of the warrant on the date of grant was determined to be US\$16,493 for the year ended 31 December 2009 by the Black-Scholes option pricing model. This estimated fair value of the warrant has been recorded as a prepaid expense in the current assets section of the Company's financial statements and is being amortised as additional bank charges, using the straight line method over the period from the date of issuance to the maturity date of the credit facility. Charges related to this warrant totalled US\$3,125 in 2009.

Warrant activity for the years ended 31 December 2009 and 2008 is as follows:

| | Issuable Common Stock |
|--|--------------------------|
| Outstanding as of 31 December 2007 | 5,498,687 |
| Granted | 26,000 |
| Exercised | (236,522) |
| Expired | (15) |
| Adjustment due to currency and share price changes | 7,388,382 |
| Outstanding as of 31 December 2008 | 12,676,532 |
| Granted | 51,874 |
| Exercised | (7,797,485) |
| Expired | (11) |
| Adjustment due to currency and share price changes | (667,310) |
| Outstanding as of 31 December 2009 | 4,263,600 |

On 1 January 2009, the Company reclassified US\$1,485,647 from additional paid-in capital, as a cumulative effect of a change in accounting principle, to long-term derivative financial instruments to

recognise the fair value of such warrants. The fair value of the warrant liabilities is as follows for the years ended 31 December 2009 and 2008:

| | Fair Value US\$ |
|------------------------------------|--------------------|
| Outstanding as of 1 January 2009 | — |
| Cumulative effect adjustment | 1,485,647 |
| Exercised | (1,360,710) |
| Expired | — |
| Change in fair value | 4,676 |
| Outstanding as of 31 December 2009 | 129,613 |

The following tables set forth by level within the fair value hierarchy the Company's warrant liabilities that were accounted for at fair value on a recurring basis as of 31 December 2009 and 2008. As required by US GAAP, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the placement within the fair value hierarchy levels.

| Description | Fair Values as of 31 December 2009 US\$ | Nonrecurring Fair Value Measurements at Reporting Date Using: | | | Total Gains (Losses) for the Year Ended 31 December 2009 US\$ |
|------------------------|--|--|---|--|---|
| | | Quoted In | Significant | Significant | |
| | | Active Market for Identical Asset (Level 1) US\$ | Other Observable Inputs (Level 2) US\$ | Unobservable Inputs (Level 3) US\$ | |
| Warrant liabilities | (129,613) | — | (129,613) | — | (4,676) |

These warrants do not trade in an active securities market. The Company calculated the fair value of these warrants by using the Black-Scholes option pricing model and the following significant observable inputs:

| | 31 December 2009 | 1 January 2009 |
|--------------------------|------------------|----------------|
| Risk-free interest rate | 2.00% | 1.50% |
| Expected volatility rate | 7.08% | 7.08% |
| Dividend yield | 0.00% | 0.00% |
| Expected life (years) | 1.08 | 1.14 |

Note 8 - Line of Credit Agreement

In August 2009, the Company entered into a two-year working capital line of credit agreement with Silicon Valley Bank (SVB) to support potential future cash needs of the Company. This agreement provides for a revolving line of credit not to exceed an aggregate principal amount of US\$1.5 million, limited to qualifying receivables as defined, and grants a security interest in and lien upon all of the assets of Lifeline Scientific, Inc. and Organ Recovery Systems, Inc. in favour of SVB. The outstanding principal under the note accrues interest at an annual rate of 2% above the prime rate. The Company did not borrow against the line in 2009. As of 31 December 2009, the Company was in compliance

with all covenants, which require the Company to maintain minimum EBITDA levels and liquidity ratios.

Note 9 – Long-Term Debt

| | 2009 US\$ | 2008 US\$ |
|---|--------------|--------------|
| Construction loan payable to the Company's landlord, payable in 60 monthly installments of US\$711, interest to be charged at 6% and due in March 2015; unsecured. | 35,085 | — |
| Subordinated loan payable by ORS Europe, NV to IWT; at the option of ORS Europe, NV, principal and interest payable on an installment basis beginning May 2012 through February 2015; interest charged at an annual rate of 8.43% for all periods except 2009 and 2010, where interest is to be charged at 5.77%; terms were extended for two years in 2009; debt subordinated to the intercompany payable to Lifeline Scientific, Inc. | 1,047,021 | 1,016,908 |
| Capital lease obligations, payable in monthly installments, including interest at various annual rates, due in January 2008 through June 2013; secured by the underlying equipment. | 82,331 | 23,974 |
| Long-term debt, net | 1,164,437 | 1,040,882 |
| Less current maturities | (37,679) | (65,127) |
| | 1,126,758 | 975,755 |

Maturities on long-term debt other than capital leases are as follows as of 31 December 2009:

| | US\$ |
|---------------------------------|-----------|
| 2010 | 4,414 |
| 2011 | 6,311 |
| 2012 | 268,590 |
| 2013 | 356,409 |
| 2014 | 357,024 |
| 2015 | 89,358 |
| Total Minimum Payments Required | 1,082,106 |

The following is a schedule by year of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of 31 December 2009:

| | US\$ |
|---|----------|
| 2010 | 61,691 |
| 2011 | 49,604 |
| 2012 | 27,838 |
| 2013 | 6,145 |
| Total Minimum Payments Required | 145,278 |
| Less amounts representing estimated executory costs | (47,373) |
| Less amount representing interest | (15,574) |
| Present value of net minimum lease payments | 82,331 |

Note 10 – Income Taxes

Income tax expense (benefit) consists of the following components:

| | 2009 US\$ | 2008 US\$ |
|---------------------------|--------------|--------------|
| Current | | |
| Federal | 65,000 | — |
| Foreign | — | — |
| State | 13,000 | — |
| | 78,000 | — |
| Deferred | | |
| Federal | 1,365,228 | (3,024,040) |
| Foreign | — | — |
| State | 158,837 | (246,560) |
| | 1,524,065 | (3,270,600) |
| Valuation allowance | (1,524,065) | 3,270,600 |
| Total Income Taxes | 78,000 | — |

The net deferred tax asset in the accompanying balance sheets includes the following components:

| | 2009 US\$ | 2008 US\$ |
|-------------------------------|--------------|--------------|
| Deferred tax liabilities | (502,629) | (488,652) |
| Deferred tax assets | 28,602,631 | 30,112,719 |
| Net deferred tax asset | 28,100,002 | 29,624,067 |
| Valuation allowance | (28,100,002) | (29,624,067) |
| Net Deferred Tax Asset | — | — |

The income tax expense (benefit) differs from the federal statutory tax rate generally as a result of changes in the valuation allowance and permanent differences, such as meals and entertainment expenses and state income taxes. A valuation allowance has been provided to reduce the deferred tax assets to the amount that is more likely than not to be realised.

The Company has federal and state net operating loss carryforwards totalling US\$68,991,000, which may be used to offset future taxable income. If not used, the carryforwards will expire as follows:

| Year | US\$ |
|---------------------------------|------------|
| 2020 | 3,591,000 |
| 2021 | 4,136,000 |
| 2022 | 5,497,000 |
| 2023 | 7,720,000 |
| 2024 | 6,412,000 |
| 2025 | 11,136,000 |
| 2026 | 12,197,000 |
| 2027 | 14,131,000 |
| 2028 | 4,171,000 |
| Total Loss Carryforwards | 68,991,000 |

As a result of changes in ownership at the IPO date, the Company estimates there will be future limitations on the utilisation of operating loss carryforwards pursuant to Internal Revenue Code Section 382. The annual limitation on loss carryforwards that could be utilised is approximately US\$2,100,000. In addition, a portion of the carryforwards could expire before becoming available to reduce future taxable income.

The Company files tax returns in the U.S. federal and various state jurisdictions, along with Belgium foreign tax jurisdictions. The Company's tax years extending back to 2006 remain open to examination for both federal and state jurisdictions. The Company's policy is to recognise interest and penalties related to uncertain tax positions as a component of other income and expense. During the years ended 31 December 2009 and 2008, the Company did not recognise expense for interest and penalties, and does not have any amounts accrued as of 31 December 2009 and 2008, as the Company does not believe it has taken any uncertain tax positions.

Note 11 – Common Stock

In accordance with its third amended and restated certificate of incorporation dated 20 December 2007, the total number of shares the Company is authorised to issue is 30,000,000, all of which is designated as common stock with US\$.01 par value. Each share of common stock entitles the holder to one vote on each matter submitted to a vote of the stockholders of the Company. The holders of the common stock shall be entitled to receive dividends when, and if, declared by the Board of Directors.

Note 12 – Stock Options

In December 2007, the Company approved a Second Amended and Restated Stock Option and Restricted Stock Plan (the 2007 Plan). As of 31 December 2009 and 2008, the 2007 Plan reserves 2,093,604 and 1,895,080 shares of common stock for grant (or 12% of the issued and outstanding common stock). The 2007 Plan permits granting of awards to selected employees, consultants and directors of the Company in the form of options to purchase shares and shares of restricted stock. Options granted may include Nonqualified Options as well as Incentive Stock Options. The 2007 Plan is currently administered by the Board of Directors. The 2007 Plan gives broad powers to the Board of Directors to administer and interpret the 2007 Plan, including the authority to select the individuals to be granted options and restricted stock, and to prescribe the particular form and conditions of each option or restricted stock granted. The 2007 Plan shall continue in effect for a term of ten years unless terminated sooner under provisions of the 2007 Plan. It is the Company's policy to issue new stock certificates to satisfy stock option exercises.

During 2009 and 2008, the Company granted 1,012,000 and 250,000 nonqualified stock options respectively to several members of the Board of Directors, employees and key consultants of the Company. The options were granted at the fair market value of the common stock on the date of the grant and have a 10 year contractual term. Plan stock options generally vest over four years. In the 2009 grant, accelerated vesting was applied to the grants to certain employees with long-standing tenure with the Company.

A summary of option activity under the Plan as of 31 December 2009, and the changes during the 12 months ended 31 December 2009 and 2008 is as follows:

| | Number of Shares | Weighted- Average Exercise Price (£) | Weighted- Average Remaining Contractual Term | Aggregate Intrinsic Value (£) |
|--|---------------------|--|--|--|
| Outstanding as of 31 December 2007 | 0 | 0 | | |
| Granted | 250,000 | 1.50 | | |
| Outstanding as of 31 December 2008 | 250,000 | 1.50 | | - |
| Granted | 1,012,000 | .42 | | |
| Outstanding as of 31 December 2009 | 1,262,000 | .63 | 8.99 | 637,045 |
| Options exercisable as of 31 December 2009 | 512,000 | .56 | 9.08 | 281,233 |

A summary of the Company's non-vested options as of 31 December 2009 and changes during the 12 months ended 31 December 2009 and 2008 is presented as follows:

| | Shares | Weighted-Average Grant-Date Fair Value (£) |
|---|-----------|---|
| Non-vested options as of 31 December 2007 | 0 | 0 |
| Granted | 250,000 | .67 |
| Vested | - | |
| Non-vested options as of 31 December 2008 | 250,000 | .67 |
| Granted | 1,012,000 | .17 |
| Vested | 512,000 | .23 |
| Non-vested options as of 31 December 2009 | 750,000 | .29 |

The following is a summary of the Company's stock options outstanding and stock options exercisable as of 31 December 2009:

| Exercise Prices (£) | Options Outstanding | | Options Exercisable | |
|------------------------|------------------------|--|------------------------|--|
| | Options Outstanding | Weighted Average Exercise Price (£) | Options Exercisable | Weighted Average Exercise Price (£) |
| .39 -.72 | 1,012,000 | .42 | 449,500 | .42 |
| 1.50 | 250,000 | 1.50 | 62,500 | 1.50 |
| Total | 1,262,000 | .63 | 512,000 | .56 |

The Company recognised compensation expense of US\$219,900 and US\$24,657 for the years ended 31 December, 2009 and 2008, respectively. As of 31 December, 2009, there was approximately US\$210,000 of total unrecognised compensation cost related to non-vested share-based compensation arrangements granted under the Plan. That cost is expected to be recognised over a weighted-average period of one year.

No options were exercised during the years ended 31 December 2009 and 2008.

Fair value was estimated as of the grant date based on a Black-Scholes option pricing model using the following weighted average assumptions for the twelve months ended 31 December 2009 and 2008:

| | 31 December 2009 | 31 December 2008 |
|------------------------------------|------------------|------------------|
| Risk-free interest rate | 2.26% | 2.88% |
| Expected volatility rate | 37.49% | 44.10% |
| Dividend yield | 0.0% | 0.0% |
| Expected life | 5.6 | 5.6 |
| Fair value per share on grant date | £.17 | £.67 |

When estimating forfeitures, the Company considers historical terminations as well as anticipated retirements.

Note 13 – Operating Leases

The Company conducts its operations in facilities leased under a number of operating leases. Rent expense under these agreements amounted to US\$474,995 and US\$467,412 for the years ended 31 December 2009 and 2008, respectively.

The following is a schedule by year of future minimum lease payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of 31 December 2009:

| Year Ending 31 December: | US\$ |
|--|------------------|
| 2010 | 363,840 |
| 2011 | 372,769 |
| 2012 | 223,185 |
| 2013 | 168,993 |
| 2014 | 172,501 |
| Thereafter | 43,876 |
| Total Minimum Payments Required | 1,345,164 |

Note 14 – Employee Benefit Plan

The Company sponsors a limited employer-matching 401(k) plan for all employees who have completed one year of service. The plan provides for contributions in such amounts as determined by the Board of Directors, and the employer match is discretionary. There were no Company contributions during the years ended 31 December 2009 and 2008, and the Company has not accrued for a contribution into the 401(k) plan.

Note 15 – Income from Life Insurance Proceeds

Due to the death of the Bowman Research Inc. subsidiary's Chief Scientific Officer in August 2008, the Company realised nontaxable income from life insurance proceeds in the amount of US\$1,000,000 for the year ended 31 December 2008. The amount is separately stated in the statement of operations as a component of continuing operations.

Note 16 – Other Cash Flow Information

The Company recorded certain accrued legal and professional fees related to the IPO of US\$121,102 as of 31 December 2008.

Cash payments of interest were US\$57,779 and US\$5,550 for the years ended 31 December 2009 and 2008, respectively.

During 2009, the Company acquired a vehicle and office equipment via leases considered to be capital leases. The capital lease obligation for these assets was US\$93,500.

During 2009, the Company constructed leasehold improvements at its new headquarters in Itasca, Illinois. Approximately US\$245,600 of leasehold improvements were financed by a tenant improvement allowance and a construction loan from the landlord.

In 2008 the holder of a US\$500,000 denominated warrant, in a cashless exercise, converted his warrant into 70,992 shares of common stock. In 2009, the various holders of US\$3,082,164 in dollar denominated warrants, originally issued in 2004 and 2005, in cashless exercises, converted their warrants into 1,654,372 shares of common stock.

See Notes 3, 7 and 12 for additional noncash transactions.

Note 17 – Major Sources of Revenue

The Company receives the majority of its grant revenue under several grant contracts from the National Institutes of Health. During the years ended 31 December 2009 and 2008, the Company received approximately US\$1,310,000 and US\$850,000, respectively. The receivable balances for the granting agencies were US\$225,127 and US\$29,156 as of 31 December 2009 and 2008, respectively.

Note 18 – Subsequent Events

Prior to 31 December 2009, the Company entered into an agreement to settle a dispute with a financial advisor relating to services rendered in connection with the Company's raising of equity. The Company agreed to issue an additional 54,000 shares of common stock to the advisor in full settlement of the disagreement, with a value of US\$90,370 based upon the trading value of the common stock on the date when the agreement was signed. In February 2010, the Company issued the 54,000 shares of common stock in accordance with the agreement.