

## Regulatory Announcement

<b>Company</b>	Akers Biosciences, Inc.
<b>TIDM</b>	AKR
<b>Headline</b>	Final Results
<b>Number</b>	3349P07

Embargoed: 0700hrs, 24 March 2009

### **Akers Biosciences, Inc.**

(“ABI” or the “Company”)

### **Preliminary Results for the Year Ended 31 December 2008**

#### **Financial Highlights**

- Revenue increased to \$6.1 million (2007: \$5.5 million)
- Adjusted EBITDA \$2.7 million (2007: loss \$1.4 million)
- Maiden operating profit \$1 million (2007: loss \$2.4 million)
- Strong cash position of \$4.3 million

#### **Operating Highlights**

- Streamlined sales and marketing focus to four core tests with largest addressable markets
- Expanded distribution for *PIFA*<sup>®</sup> *Heparin/PF4 Rapid Assay* in USA and Germany
- Transferred Free Radical Enzymatic Device technology to PULSE Health for \$3 million plus multi-year supply and royalty payments
- Signed Over-the-counter deal for *Tri-Cholesterol “Check”*<sup>®</sup>
- Completed initial development of two new breath tests in lung cancer and diabetes fields to add to core product portfolio in 2009

#### **Edward Mulhare, Chairman, commented,**

“The Company is finally evolving into the business that we long believed it could become.

Each of the four current and two future core products have market potentials ranging from tens of millions of dollars per annum to hundreds of millions. We recognise that sales at present represent only a tiny fraction of the potential market size for each product and, having made inroads to commercialisation in 2008, the Company is poised to accept the challenge to grow ABI’s worldwide business in 2009 and beyond.”

## **Enquiries:**

Thomas A. Nicolette  
President and CEO  
Tel. +1 856 848 8698

Ben Simons or Eleanor Williamson  
M: Communications  
Tel. +44 (0)20 7153 1540

Alasdair Younie  
Arbuthnot Securities Limited  
Tel. +44 (0)20 7012 2000

## **Chairman's Statement**

It is with pleasure that I report my first preliminary results as Chairman of ABI, in a year when the Company delivered an operating profit for the first time in its history. 2008 was the year when everything began to come together for ABI, as the potential of the Company's technology platforms that have long been so compelling to the Board and shareholders, started to materialise in the form of concrete sales and marketing activities.

On 3 April 2008 we were pleased to appoint Thomas A. Nicolette as Chief Executive Officer. I initially introduced Mr. Nicolette to ABI as a consultant which led to his appointment as a Non-executive Director in May 2006. He was later appointed President and Chief Financial Officer in July 2007. His track record of experience in commercialising technologies became increasingly attractive to ABI given the Company's evolving market position. As a result, Mr. Nicolette was asked by the Board to become Chief Executive to solidify the Company's shift from a research and development-based entity to a focused, sales and marketing organisation.

This strategy is progressing well and now each of the Company's four core products (*PiFA*<sup>®</sup> *Heparin/PF4 Rapid Assay*, *BreathScan*<sup>®</sup>, *Free Radical Enzymatic Device* ("*FReD*"), and *Tri-Cholesterol* "*Check*"<sup>®</sup>), are in the market place either through distribution with experienced partners or by direct sale to blue-chip customers. ABI is poised to launch two additional breath-based products in 2009 (*Breath Ketone* "*Check*"<sup>®</sup> and the *Breath PulmoHealth* "*Check*"<sup>®</sup>) which will increase the Company's core product offerings to six uniquely positioned rapid tests.

## **Financial Review**

The key financial event during 2008 was the transformation of the balance sheet arising from the decision of Brittany Capital, ABI's significant former loan note holder, to convert its remaining convertible and interest debt into common shares. This, coupled with the investment of £2.275m into ABI from a consortium of private investors, has left the Company with no long term debt, no convertible shares outstanding and a cash position as at 31 December 2008 of approximately \$4.3m.

Revenue in 2008 increased 11% to \$6.1m (2007: \$5.5m). EBITDA was \$2.7m (2007: \$1.4m negative) leading to an operating profit of \$1.0m (2007: loss of \$2.4m).

## **Board Changes**

We welcomed Charles Bunker to the Board as a Non-executive Director on 27 October 2008. Mr. Bunker is a Chartered Accountant and experienced corporate financier. He is based in the United Kingdom, and effectively, replaces David Wilbraham as the Company's UK non-executive representative. Mr. Wilbraham retired as Non-executive Chairman after a period of seven years of service, beginning in 2002 when the Company floated. I would like to reiterate the Board's gratitude for his valuable counsel and wish him well in retirement. Following David's retirement, I took over the role of Non-executive Chairman on 27 October 2008 having been a director of ABI for almost fifteen years.

## **Outlook**

I have been involved with ABI throughout its various phases of development and can state, with confidence, that the Company is finally evolving into the business that we long believed it could become. Each of the four current and two future core products have market potentials ranging from tens of millions of dollars per annum to hundreds of millions. We recognise that sales at present represent only a tiny fraction of the potential market size for each product and, having made inroads to commercialisation in 2008, the Company is poised to accept the challenge to grow ABI's worldwide business in 2009 and beyond.

Edward Mulhare  
Chairman  
24 March 2009

## **Chief Executive's Review**

### Core Product Review

Substantial efforts in 2008 have been made to refine ABI's focus to the core products that clearly represent the largest market potential to sustain growth in the future. Today these four products are:

*PIFA<sup>®</sup> Heparin/PF4 Rapid Assay*  
*BreathScan<sup>®</sup>*  
*Free Radical Enzymatic Device ("FReD")*  
*Tri-Cholesterol "Check"<sup>®</sup>*

### ***PIFA<sup>®</sup> Heparin/PF4 Rapid Assay***

Although representing only 17% of ABI's 2008 revenues, it is envisaged that this product will in time far eclipse the contributions of the other existing core products irrespective of their own likely exponential growth.

Heparin is the most widely prescribed intravenous, blood thinner in the world and has been used in open surgery and dialysis routinely for more than seventy years. Its predominantly natural ingredients and low acquisition cost, given the drug's generic availability, make it an overwhelmingly preferred product within the medical industry over costly, alternative synthetic drugs known as Direct Thrombin Inhibitors. As with any drug, there are risks involved with heparin administration. One rather severe complication is Heparin-Induced Thrombocytopenia (HIT) whereby patients receiving heparin develop an "allergy" to the drug. In essence, instead of thinning the blood, heparin becomes a clotting agent that can cause limb- and life-threatening blood clots.

Antibodies to complexes of heparin and the protein, Platelet Factor 4 (PF4) have been found to be a major determinant in the pathogenesis of HIT. The potential for HIT in the more than 25m patients receiving heparin in the USA and EU each year creates a medical necessity and an attractive market for medical devices that test for the presence of these antibodies when HIT is suspected. Traditional laboratory tests take hours to perform, are complicated and expensive to run, and fail to provide the medical professionals with the time-sensitive results that they need to effectively treat their patients. The *PIFA<sup>®</sup> Heparin/PF4 Rapid Assay* is the only rapid, diagnostic test cleared by the United States Food and Drug Administration (FDA) for the detection of antibodies to complexes of heparin/platelet factor 4. The *PIFA<sup>®</sup>* assay is completed in minutes following a straightforward test procedure.

ABI's route to market for this product is most effectively achieved through established distributors operating in the field. To this end, in June 2008, the Company signed an agreement with Trinity Biotech to be the Company's third distributor, in addition to Corgenix and Cardinal Health, in North America. Between these three companies, ABI has access to approximately 70% of US hospitals and to date, the test system has been implemented into medical facilities in over 75% of the 50 States. In 2008, we also expanded the distribution, again through Trinity Biotech, into Germany, where marketing efforts are being established presently. Other markets in which the product is now represented by Corgenix are the UK and the Netherlands.

The case for switching existing high complexity laboratory methods over to ABI's rapid alternative is a highly compelling one, as medical facilities stand to increase efficiencies related to patient management and save money in a number of cost centers. It is, however, a slow process to both reprogramme the medical industry, imbedded in traditional methods and, in effect, educate some laboratory professionals and clinicians as to the prevalence of Heparin-Induced Thrombocytopenia and the urgent need to test for HIT antibodies. For these reasons we are focusing our attention on the markets that offer both the largest and fastest potential. Progress is being made and sales of the test in 2008

amounted to \$1.1m. Evidence has shown that every time a new hospital evaluates the *PIFA*<sup>®</sup> *Heparin/PF4 Rapid Assay*, in over 85% of cases, they return to reorder the test. We believe, as this momentum continues, that growth rates of this product will ratchet up in more aggressive numbers as time moves forward.

Our ambition for this product is to make the *PIFA*<sup>®</sup> *Heparin/PF4 Rapid Assay* a standard testing format in the diagnosis of Heparin-Induced Thrombocytopenia in clinical laboratories the world over.

### ***BreathScan***<sup>®</sup>

The *BreathScan*<sup>®</sup> line of disposable breath alcohol detectors represented 35% of ABI's revenues in 2008. *BreathScan*<sup>®</sup> detectors are designed to measure the level of alcohol in the breath via a simple, non invasive, disposable breath condensate collection device. The reagent within the tube is based on ABI's proprietary MPC Biosensor technology, and can be calibrated to .02%, .04%, .05% or .08% breath alcohol levels to suit different organisational or safety requirements.

The main customer for the *BreathScan*<sup>®</sup> alcohol test presently is the US Military whereby various branches of the armed forces have implemented the use of the .04% detector as part of their Personally Owned Vehicle (POV) Safety program. The detector is housed within a custom, water-resistant key chain so that it can be used whenever and wherever it's needed. Once the *BreathScan*<sup>®</sup> test is administered, military personnel obtain a *BreathScan*<sup>®</sup> refill from their superior to ensure that the safety key chain is always "armed" with a *BreathScan*<sup>®</sup> detector. In the near future this Military application will likely be the largest revenue contributor amongst ABI's core products as the program, which was initiated in 2003, continues to be adopted in military bases throughout the world.

The unprecedented economic situation that occurred in the second half of 2008 caused the US Government to delay the approval of the US military budget. Consequently the Company was not able to generate expected revenue from its *BreathScan*<sup>®</sup> refills after 30 September 2008. However, the Company is hopeful that it will receive significant orders for its *BreathScan*<sup>®</sup> refills through US government sources.

Beyond the US Military, ABI made inroads in 2008 with the expansion of our worldwide distribution network. 2009 will witness the launch of marketing efforts in both South America and Asia. The Company also negotiated an agreement with a major USA distributor of over-the-counter products to market a private label version of the .02% detector; pre-selling to buyers of large, brick-and-mortar retailers began in late 2008 and an initial order fulfillment was executed in Q1 2009.

### ***Free Radical Enzymatic Device ("FReD")***

In 2007, ABI was approached to by PULSE Health to develop a simple, non- invasive, disposable breath-based test to measure free radical activity in the blood using ABI's

proprietary MPC Biosensor technology platform (the same platform that is used in the *BreathScan*® product line). Free radicals are substances implicated in numerous disease processes and are often associated with the consumption of processed foods and alcohol and the use of tobacco products. There is a multi-billion dollar market in the United States for anti-oxidant products designed to reduce free radical activity though, until now, there has been no easy way to monitor their efficacy. This is the primary application identified by PULSE Health who is the supplier to the nutraceutical industry.

On 31 December 2008 ABI transferred the technology pertaining to FReD to PULSE Health for \$3m. This was the largest contributing factor to revenues in 2008. It is however, by no means, the most important element of the ongoing potential for the test and the reason it remains a core product in ABI's portfolio. As part of the transfer deal, ABI has a multi-year supply agreement to produce the breath tests for PULSE Health. In addition the Company will earn a royalty for every tube produced.

In March 2009, PULSE Health initiated the launch of their marketing campaign with sales to the chiropractic industry. Later this year, PULSE Health's distribution partner within the nutraceutical beverage industry will begin its direct-to-consumer selling campaign.

The Board believes that FReD is likely to be a leading revenue generator for ABI in the nearer future but ultimately is not comparable in scale to other larger tests, such as *PIFA*® *Heparin/PF4 Rapid Assay*.

### ***Tri-Cholesterol "Check"*®**

Given that heart disease is the leading cause of death for both men and women, the fastest growing home test in the United States today is the cholesterol self-test. In addition elevated cholesterol is one of the largest independent risk factors for the disease.

There are multiple products on the market which provide a total cholesterol reading but, with the exception of ABI's proprietary *Tri-Cholesterol "Check"*® test, none are able to provide an additional reading for HDL (good cholesterol) and an estimate of LDL (bad cholesterol). Knowledge of these three testing endpoints enables individuals to have a more complete profile of their heart health.

On 20 November 2008, ABI signed an agreement with a leading US distributor of over-the-counter products to supply *Tri-Cholesterol "Check"*® tests that will be marketed under their house brand. During 2009, the test will appear on the shelves of major retail stores across the United States, including Walmart, Kmart, Walgreens, CVS, Safeway, Costco and Target. The Board is optimistic that *Tri-Cholesterol "Check"*® will become a standard home cholesterol test in the United States and is therefore considered a core product for the Company.

## **Non Core Products**

There are numerous other developed tests within the ABI product suite, such as Battlefield Blood Transfusion card and tests for infectious diseases such as malaria. Most of these are targeted at niche markets, many of which reside outside of the USA. ABI continues to pursue opportunities that arise within this non-core portfolio that represent relatively sizable, revenue-generating opportunities.

## **New Product Development**

ABI's MPC Biosensor technology is a particularly versatile platform. In 2008, the Company's scientists applied the technology to capture certain biomarkers present in breath condensate that are indicative of two separate medical conditions, lung cancer and diabetic ketoacidosis. These tests are in the final stages of development and it is anticipated that they will be added to the core product portfolio during 2009. *Breath Ketone Check*<sup>®</sup> is expected to be launched in Q2 2009 and *Breath PulmoHealth Check*<sup>®</sup> is expected to be launched during Q4 2009.

With the exception of the *PIFA*<sup>®</sup> *Heparin/PF4 Rapid Assay*, these new tests are targeting markets that are significantly larger in scale than other products within the ABI portfolio.

### ***Breath Ketone*<sup>®</sup> *Check***

*Breath Ketone*<sup>®</sup> *Check* detects the presence of ketones in a diabetic's breath sample. Ketones are acids that build up in the blood and are warning signs of Diabetic Ketoacidosis, a severe and potentially life-threatening condition. It is estimated that there are over 220 million people worldwide with diabetes and every diabetic is at risk of developing Ketoacidosis.

*Breath Ketone Check*<sup>®</sup> will be the only rapid, disposable ketone breath test in the world and may replace the need for diabetic sufferers to undergo periodic blood or urine Ketoacidosis screenings. Aside from the at-home testing convenience that the breath test will offer diabetics, the *Breath Ketone Check*<sup>®</sup> will provide users with the benefit of identifying the presence of dangerous levels of ketones, even at the earliest stages, to help facilitate quicker intervention and immediate treatment. The advantages offered by the *Breath Ketone Check*<sup>®</sup> will positively impact the lives of every individual diagnosed with diabetes and will be especially beneficial to the pediatric population given the device's ease of use and portability.

ABI's goal is to establish the *Breath Ketone Check*<sup>®</sup> as a standard, diabetic testing device around the world.

### ***Breath PulmoHealth Check*<sup>®</sup>**

In early 2008, ABI's scientists identified a biomarker present in breath condensate that indicates the presence of an inflammatory condition that signals the development of

cancer in the lung. The *Breath PulmoHealth Check*<sup>®</sup> is designed to be a simple, accurate diagnostic tool that medical professionals can use with patients demonstrating symptoms of lung cancer, those most at risk for developing lung cancer, and those in remission from lung cancer.

Currently, diagnostic methods used for the detection of lung-related diseases involve costly blood tests, radiologic exams or invasive surgical procedures. Whilst ABI does not presume *Breath PulmoHealth Check*<sup>®</sup> to be a replacement for such tests in all markets, the Company does however have ambitions for the device to become a primary screening tool.

We are in the process of identifying potential distribution partners for both breath test products. Our sales and marketing efforts will be initially focused on the United States, with plans to expand distribution worldwide in 2010.

### **Strategy**

In 2008, ABI continued to focus on the execution of a well-defined business plan that demands measurable financial results. We continue to centre our efforts on products and commercial opportunities that have or will evolve from our 6 proprietary platform technologies and each product marketed or business relationship forged must provide tangible benefits to our bottom line.

There are three primary revenue streams to ABI's business model:

- recurring sales of ABI products to customers, either directly or through third party distributors;
- disposals or licensing of products or technology to third parties, with royalty and/or supply agreements thereafter; and
- funded development work for third parties.

The 2008 financial results reflect the successful implementation of this strategic vision which will continue to dominate our commercial efforts in 2009 and beyond.

### **Objectives and Outlook for 2009**

- Increase the penetration of *PIFA*<sup>®</sup> *Heparin/PF4 Rapid Assay*, both domestically and internationally, by continuing to support current distribution partners and adding new distributors where possible and financially attractive.
- Focus commercial efforts on our core products with blockbuster potential.
- Launch *Breath Ketone Check*<sup>®</sup> and the *Breath PulmoHealth Check*<sup>®</sup> tests with distribution partners who are well-established in the US diagnostic market.

- Continue to manage costs prudently whilst, at the same time, making necessary investments to achieve the depth of penetration that we know our core products can achieve.

*Breath Ketone Check*<sup>®</sup>, *Breath PulmoHealth Check*<sup>®</sup> and *PIFA*<sup>®</sup> *Heparin/PF4 Rapid Assay* share a common trait in that they each address a potentially huge international market into which the Company is making inroads.

I would like to thank every member of the ABI team for their continuing hard work in driving these products forward. ABI is striving to grow the market share of each of its products towards their full potential.

Thomas A. Nicolette  
President and Chief Executive Officer  
24 March 2009

## Consolidated Balance Sheets

	Note	<u>2008</u>	<u>2007</u>
		\$	\$
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment, net	7	336,013	193,692
Intangible assets, net	8	2,739,943	2,779,143
Deferred financing costs		-	49,978
Long-term Receivables, net of current portion		1,250,000	-
Other assets		12,632	12,633
<b>Total non-current assets</b>		<u>4,338,588</u>	<u>3,035,446</u>
<b>Current assets</b>			
Inventories (net )	9	409,085	697,498
Trade and other receivables(net)	10	2,120,397	1,922,067
Cash and cash equivalents		4,311,384	1,306,706
Other assets		94,812	93,920
<b>Total current assets</b>		<u>6,935,678</u>	<u>4,020,191</u>
<b>Total assets</b>		<u>11,274,266</u>	<u>7,055,637</u>
	Note	<u>2008</u>	<u>2007</u>
		\$	\$
<b>EQUITY (DEFICIT)</b>			
Share capital	11	77,799,990	66,543,545
Accumulated deficit		(67,521,725)	(66,986,923)
<b>Total equity (deficit)</b>		<u>10,278,265</u>	<u>(443,378)</u>

## LIABILITIES

### Non-current liabilities

Borrowings, net of current portion	13	-	346,097
Obligations under finance leases		-	-

### Total non-current liabilities

-	346,097
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### Current liabilities

Trade and other payables		906,001	1,692,160
Borrowings, net of discount of \$122,597 as of 31 December 2007	13	90,000	5,335,347
Obligations under finance leases		-	-
Accrued interest payable		-	125,411

### Total current liabilities

996,001	7,152,918
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### Total liabilities

996,001	7,499,015
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### Total equity and liabilities

11,274,266	7,055,637
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## Consolidated Statements of Operations

Note

	Year ended 31/12/08 \$	Year ended 31/12/07 \$
Revenues:		
Product revenue	2,699,779	5,519,961
License revenue	3,378,198	-
Total Revenue	6,077,977	5,519,961
Cost of Sales:		
Product cost of sales	(1,370,913)	(2,014,389)
License cost of sales	-	-
Total cost of sales	(1,370,913)	(2,014,389)
Gross profit	4,707,064	3,505,572
Other income	134,005	17,279
Administrative expenses	1,695,642	2,875,123
Research and Development expenses	430,782	125,893
Noncash share based compensation	1,185,571	1,854,480
Amortization of non-current assets	479,700	408,300
Income/(Loss) from operations	1,049,374	(1,740,945)
Foreign Currency Transaction Expense	1,001,788	-

Interest Expense		85,699	209,058
Non-Cash Interest Expense		<u>1,196,301</u>	<u>415,764</u>
Total Other Expense		2,283,788	624,822
Loss before income taxes		(1,234,414)	(2,365,767)
Income tax benefit	7	<u>699,612</u>	<u>640,929</u>
Net Loss		<u>(534,802)</u>	<u>(1,724,838)</u>
Basic and diluted loss per share	13	\$ (0.01)	\$ (0.03)
Weighted average basic & diluted common shares outstanding		<u>92,706,529</u>	<u>62,264,974</u>

### Consolidated Statements of Changes in Equity(Deficit)

	\$	\$	\$	\$
	Share capital	Capital reserves	Accumulated Deficit	Total equity
<b>Balance at 31 December 2006</b>	62,593,546	-	(65,262,085)	(2,668,539)
<b>Changes in equity (deficit) for 2007</b>				
Net loss for the year			(1,724,838)	(1,724,838)
<b>Total recognised income and expense for the period</b>	62,593,546	-	(66,986,923)	(4,393,377)
Recognition of share based payments	1,662,630			1,662,630
Issuance of shares for board of director fees	191,850			191,850
Issuance of shares for the conversion of debt and accrued interest	905,595			905,595
Issuance of warrants in connection with convertible notes	264,163			264,163
Sale of ordinary shares	266,376			266,376
Issuance of shares as consideration for the refinancing of convertible notes	79,132			79,132
Exercise of warrants and stock options	8,235			8,235
Issuance of warrants for purchase of intangible	572,018			572,018
<b>Balance at 31 December 2007</b>	66,543,545	-	(66,986,923)	(443,378)
<b>Changes in equity (deficit) for 2008</b>				
Net loss for the year			(534,802)	(534,802)
<b>Total recognised income and expense for the period</b>	66,543,545	-	(67,521,725)	(978,180)
Recognition of share based payments for options and warrants	1,185,571			1,185,571
Issuance of shares for board of director fees	39,375			39,375

Issuance of shares for the conversion of debt and accrued interest	5,409,822		5,409,822
Sale of ordinary shares for cash	4,566,710		4,566,710
Exercise of warrants and stock options	36,569		36,569
Issuance of shares for the conversion of accounts payable	18,398		18,398
<b>Balance at 31 December 2008</b>	<u>77,799,990</u>	-	<u>(67,521,725)</u> 10,278,265

### Consolidated Cash Flow Statements

	Year ended 31/12/08	Year ended 31/12/07
	\$	\$
<b>Cash flows from operating activities</b>		
Net loss for the year	(534,802)	(1,724,838)
Adjustments for:		
Provisions for bad debts	-	86,129
Interest expense recognised in statement of operations (cash and non-cash)	1,282,002	624,822
Noncash share based compensation	1,185,571	1,854,480
Noncash Other Income from conversion of debt	(34,406)	-
Reversal of bifurcation charges related to convertible debt	-	(230,000)
Depreciation and amortization of non-current assets	<u>545,894</u>	<u>460,083</u>
	2,444,259	1,070,676
Movements in working capital		
(Increase)/decrease in trade and other receivables	(1,448,330)	(1,391,160)
(Increase)/decrease in inventories	288,413	409,443
(Increase)/decrease in other assets	(892)	195,539
Increase (decrease) in trade and other payables	<u>(728,386)</u>	<u>106,753</u>
	(1,889,195)	(679,425)
Income taxes paid	-	-
Interest paid	<u>(85,699)</u>	<u>(209,058)</u>
Net cash used in operating activities	<u>469,365</u>	<u>182,193</u>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(208,515)	(20,992)
Capitalised development costs		

	(440,500)	(375,000)
Purchase of intangible assets	-	(1,500,000)
Net cash used in investing activities	(649,015)	(1,895,992)
<b>Cash flows from financing activities</b>		
Proceeds from issuance of ordinary shares	4,603,279	274,611
Proceeds from new borrowings	-	2,758,028
Repayments of borrowings	(1,293,540)	(38,602)
Repayments of obligations under finance leases	(125,411)	(14,674)
Deferred financing costs	-	-
Net cash from financing activities	3,184,328	2,979,363
Net increase/(decrease) in cash and cash equivalents	3,004,678	1,265,564
Cash and cash equivalents at beginning of year	1,306,706	41,142
Cash and cash equivalents at end of year	4,311,384	1,306,706
Supplemental Disclosure of Cash Flow Information:		
Non-cash investing and financing activities:		
Conversion of payables into common stock	\$ 57,773	\$ -
Conversion of debt and accrued interest payable into common stock	\$ 5,409,822	\$ 905,595
Issuance of warrants for purchase of intangible assets	\$ -	\$ 572,018
Issuance of shares in connection with debt refinancing	\$ -	\$ 79,132
Conversion of accounts payable to notes payable	\$ -	\$ 90,000

## Notes to Consolidated Financial Statements

### Note 1 Reporting Entity

Akers Biosciences, Inc. and Subsidiaries (the “Company”) is a company domiciled in the United States of America. The address of the Company’s registered office is 201 Grove Road, Thorofare, New Jersey, 08086. The Company’s parent company is incorporated in the United States of America under the laws of the State of New Jersey. The Company commenced research and development operations in September 1989, and until 2005 had devoted substantially all its efforts to establishing the new business.

The Company’s primary focus is the development and sale of disposable diagnostic testing devices that can be performed in minutes, to facilitate time-sensitive therapeutic decisions. The Company’s main products are a disposable breathalyzer test that measures the blood alcohol

content of the user, a rapid test detecting the antibody causing an allergic reaction to Heparin and a disposable breathalyzer test that measures the Free Radical activity in the human body. When the Company enters into an agreement with a new distributor it requires an upfront licensing fee to be paid for the right to sell the Company's products in specific markets.

## **Liquidity**

The accompanying financial statements have been prepared on a going-concern basis, which contemplates the continuation of operations, realization of assets and liquidation of liabilities in the ordinary course of business. For the year ended 31 December 2008, the Company generated a net loss of \$ 534,802. As of 31 December 2008, the Company has an accumulated deficit of \$ 67,521,725 and had cash and cash equivalents totalling \$ 4,311,384.

### Note 2 Basis of Presentation

#### **a) Statement of compliance**

The consolidated financial statements of Akers Biosciences, Inc. ("ABI" or the "Company") are prepared in US dollars and in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements of ABI were prepared under the historical cost convention, except as disclosed in the accounting policies below. On March 23, 2009, the Board of Directors authorized the financial statements for issue.

#### **b) Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- Acquired intangible assets are measured at estimated fair values on the date of acquisition
- Share-based payment arrangements are measured at fair value.
- Equity based instruments issued in connection with debt obligations are recorded based on estimated fair value

The methods used to measure fair values are discussed further in note 5.

#### **c) Functional and presentation currency**

These consolidated financial statements are presented in U.S. Dollars, which is the Company's functional currency. All financial information presented in U.S. Dollars has been rounded to the nearest dollar.

#### **d) Use of estimates and judgements**

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the

amounts recognised in the financial statements is included in the following notes for warrants and employee share based payments.

### Note 3 Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Company's subsidiaries.

#### **(a) Basis of consolidation**

##### **Subsidiaries**

Subsidiaries are entities controlled by the Company. Control exists when the Company owns, directly or indirectly through subsidiaries, more than half of the voting power of the entity. Control also exists when the Company owns half or less of the voting power when there is power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

##### **Transactions eliminated on consolidation**

Intra-Company balances and transactions, and any unrealised income and expenses arising from intra-Company transactions, are eliminated in preparing the consolidated financial statements.

#### **(b) Financial instruments**

##### **Non-derivative financial instruments**

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows. Accounting for finance income and expense is discussed in Note 4(p).

The carrying amounts of current trade and other receivables and trade and other payables approximate fair value given their short term nature.

##### **Loans and borrowings**

Loans and borrowings are measured at amortised cost using the effective interest method, less any impairment losses.

##### **Compound financial instruments**

Compound financial instruments issued by the Company comprise convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest, dividends, losses and gains relating to the financial liability are recognised in profit or loss. Distributions to the equity holders are recognised against equity, net of any tax benefit.

### **Share capital**

Common stock shares:

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

### **(c) Property, plant and equipment**

#### **Recognition and measurement**

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within “other income” in profit or loss.

#### **Revaluation model**

If fair value can be measured reliably, an entity can carry all items of property, plant and equipment of a class at a revalued amount, which is the fair value of the items at the date of revaluation less any subsequent accumulated depreciation and accumulated impairment losses. The Company has not elected the revaluation model.

#### **Subsequent costs**

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced

part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

### **Depreciation**

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Plant and equipment	5-12 years
Furniture and fixtures	5-10 years
Computer equipment and software	3-5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

### **(d) Intangible assets**

#### **Patents and Trade Secrets**

The Company has developed or acquired several diagnostic tests that can detect the presence of various substances in a person's breath, blood, urine and saliva. Proprietary protection for the Company's products, technology and process is important to its competitive position. To date, the Company has received four patents from the United States Patent Office (5,565,366, 5,231,035, 5,827,749, and D368045). Other patents have been granted through the World Patent Cooperation Treaty ("PCT") (WO 92/05440, US2005/027822, US2005/015875, US91/06870, and US2005/036109), European Patent Convention (EP 0 556 202 B1), and in Japan (516757/91). Patents are in the national phase of prosecution in many PCT-participating countries. Additional proprietary technology consists of numerous different inventions. The Company intends to file additional patent applications, where appropriate, relating to new products, technologies and their use in the US, European and Asian markets. Management intends to protect all other intellectual property (e.g., copyrights, trademarks and trade secrets) using all legal remedies available to the Company.

#### **Patent Costs:**

Costs associated with applying for patents are capitalized as patent costs. Once the patents are approved, the respective costs are amortized over a period of twelve to seventeen years on a straight-line basis. Patent pending costs for patents that are not approved are charged to operations the year the patent is rejected.

In addition, patents may be purchased from third parties. The costs of acquiring the patent are capitalised as patent costs if it represents a future economic benefit to the Company. Once a patent is acquired it is amortised over its remaining life.

#### **Development**

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development

costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Borrowing costs related to the development of qualifying assets are recognised in profit or loss as incurred. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

### **Other intangible assets**

Other intangible assets that are acquired by the Company, which have definite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

### **Subsequent expenditure**

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

### **Amortisation**

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Patents and trademarks	12-17 years
Customer lists	5 years
Development costs	10 years

### **(e) Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Inventories are written down to net realisable value by item. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. In subsequent periods, when the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the amount of the inventory write-down is reversed up to original cost.

### **(f) Impairment**

### **Non-financial assets**

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## **(g) Employee benefits**

### **Defined contribution plans**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

### **Share-based payment transactions**

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

## **(h) Provisions**

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by

discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

#### **(i) Revenue**

##### **Goods sold**

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. For sales of goods to components of the U.S. Government (i.e. Army, Navy, etc.), transfer usually occurs when the product is received at the customer's warehouse; however, for some shipments, transfer occurs upon loading the goods onto the relevant carrier.

##### **License transactions**

The Company also enters into arrangements to license its technology to third parties. The Company licenses its technology to customers under perpetual and term arrangements. License fees received under perpetual arrangements are recognized as revenue when it is probable the benefits will accrue to the Company and there are no further obligations under the arrangement. License fees received under term license arrangements are generally recognized as revenue ratably over the term of the license.

##### **Multiple Element Arrangements**

When the Company enters into arrangements that contain more than one deliverable, the Company allocates revenue to the separate elements under the arrangement based on their relative fair values. When fair values are not determinable for delivered elements, the Company uses the residual method for allocating revenue to separate elements. Under this method, consideration is first allocated to the undelivered elements based on their fair values and the remaining consideration is allocated to those elements that have been delivered.

#### **(j) Lease payments**

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

#### **(k) Finance income and expenses**

Finance income comprises interest income on funds invested. Finance expenses comprise interest expense on borrowings.

## **(l) Income tax**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

## **(m) Earnings per share**

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

## **(n) New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008, and have not been applied in preparing these consolidated financial statements:

IFRS 8 *Operating Segments* introduces the “management approach” to segment reporting. IFRS 8, which becomes mandatory for the Company’s 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Company’s Chief Operating Decision Maker in order to assess each segment’s performance and to allocate resources to them. Currently the Company operates in one segment. Management is currently evaluating what impact, if any, this new pronouncement will have on the Company.

Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Company’s 2009 financial statements and will constitute a change in accounting policy for the Company. In accordance with the transitional provisions the Company will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date.

IFRIC 13 *Customer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Company’s 2009 financial statements, is not expected to have any impact on the consolidated financial statements.

#### Note 4 Determination of Fair Values

A number of the Company’s accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

##### **Intangible assets acquired**

The fair value of purchased patents and trademarks is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

##### **Long term trade and other receivables**

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

##### **Loans and convertible notes**

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

### **Share-based payment transactions**

The fair value of employee stock options is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for expected changes), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

## Note 5 Financial Risk Management

### **Overview**

The Company has exposure to the following risks from its use of financial instruments:

credit risk  
liquidity risk  
concentration risk

This note presents information about the Company's exposure to each of the above risks. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

### **Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Company's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk.

Management has established a credit policy under which each new customer is analysed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review may include external ratings, when available, and in some cases bank references.

### **Concentration risk**

Approximately, 67 percent of the company's 2008 revenue is attributable to sales transactions with two customers, one relates to the sale of technology and the other is a component of the United States Government. In 2007 approximately 79 percent of the company's revenue was attributable to 2 components of the United States Government. These customers accounted for 67 percent and 85 percent of accounts receivables as of 31 December 2008 and 31 December 2007, respectively. Approximately 90% of the company's sales are to customers in the United States.

### **Trade and other receivables**

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a

specific loss component that relates to individually significant exposures, and a collective loss component established for Companies of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

### **Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. See Note 1 for further discussion on liquidity.

### Note 6 Income Tax Expense

The Company's income tax benefit is as follows:

	<b>Years Ended 31 December</b>	
	<b>2008</b>	<b>2007</b>
<b>Net state income tax benefit</b>	<u>\$699,612</u>	<u>\$640,929</u>
<b>Total</b>	<u>\$699,612</u>	<u>\$640,929</u>

During 2008 and 2007, the Company was approved by the State of New Jersey to sell a portion of its state tax benefits pursuant to the Technology Tax Certificate Transfer Program. The Company received net proceeds of \$699,612 and \$650,083 in 2008 and 2007, respectively, as a result of the sale of the tax benefits, which has been included when received as an income tax benefit in the consolidated Statement of Operations.

The Company has had recurring tax losses and the Company has determined that it is not probable that the Company will be able to utilize its net operating loss carryforwards and other tax attributes in the future. Accordingly, the Company has not recorded any deferred tax assets as of 31 December 2008 and 31 December 2007.

The principle components of unrecognised deferred tax assets consisted of the following as of 31 December 2008 and 31 December 2007:

	<b>31 December, 2008</b>	<b>2007</b>
<b>Unrecognized deferred tax assets:</b>		
<b>Reserves and other</b>	\$613,551	\$1,729,592
<b>Net operating loss carry-forwards</b>	<u>21,420,348</u>	<u>20,011,000</u>
<b>Total unrecognized deferred tax assets</b>	<u>\$22,003,852</u>	<u>21,740,592</u>

The reconciliation of income taxes computed using the statutory U.S. income tax rate and the benefit from income taxes for the years ended 31 December 2008 and 2007 are as follows:

	Year Ended 31 December, <u>2008</u>	Year Ended 31 December, <u>2007</u>
Statutory U.S. Federal income tax rate	(34.0%)	(34.0%)
New Jersey State income taxes, net of U.S. Federal benefit	(8.99%)	(8.99%)
Increase in unrecognized deferred tax assets	1.3%	19.89%
Net benefit from sale of state income tax benefits	<u>(41.7)%</u>	<u>(27.1)%</u>

## Note 7 Property Plant and Equipment

Property, plant and equipment as of 31 December 2008 and 31 December 2007 and the movements for the years then ended are as follows:

	<u>Machinery &amp; Equipment</u>	<u>Molds &amp; Dies</u>	<u>Office Equipment</u>	<u>Computer Equipment</u>	<u>Computer Software</u>	<u>Furniture &amp; Fixtures</u>	<u>Leasehold Improvements</u>	<u>Total</u>
<b><u>Cost or deemed Cost</u></b>								
<b>At 1 January 2008</b>	\$973,817	\$ 242,957	\$12,716	\$75,437	\$22,930	\$13,950	\$105,442	\$1,447,249
Additions	19,449	4,509	37,333	21,777	-	15,989	109,458	208,515
Disposals								
<b>At 31 December 2008</b>	\$993,266	\$247,466	\$50,049	\$97,214	\$22,930	\$29,939	\$214,900	\$1,655,764
<b><u>Accumulated Depreciation</u></b>								
<b>At 1 January 2007</b>	\$ 896,319	\$213,500	\$5,054	\$80,605	\$16,338	\$12,753	\$28,988	\$1,253,557
Additions	27,177	10,495	7,467	5,505	2,637	2,617	10,296	66,194
Disposals								
<b>At 31 December 2007</b>	\$923,496	\$223,995	\$12,521	\$86,110	\$18,975	\$15,370	\$39,284	\$1,319,751
<b><u>Net book value</u></b>								
<b>At 1 January 2008</b>	\$77,498	\$29,457	\$7,662	\$(5,168)	\$6,592	\$1,197	\$76,454	\$193,692
At 31 December 2008	\$69,770	\$23,471	\$37,528	\$11,104	\$3,955	\$14,569	\$175,616	\$336,013

Substantially all of the Company's assets are pledged as collateral under the debt facilities of the Company. There were no property, plant and equipment under finance

leases at either 31 December 2008 or 31 December 2007.

Note 8 Intangible Assets

On January 23, 2007, the Company completed the acquisition of certain assets, including a patent pending for a key component of a product of significant potential sales value of disposable alcohol breathalyzer tests to the U.S. military. Subsequent to this transaction, the Company filed for and was awarded a patent for this technology in the U.S. Additionally, the Company acquired a trademark and contracts to deliver the above products to the U.S. military pursuant to specific appropriations in the 2007 and 2008 appropriation bills. Prior to this transaction, the seller of the assets was the Company's distributor of product to the U.S. military. The Company paid \$2,072,000 in total consideration for the acquired intangibles, as follows:

- \$1,500,000 in cash, to be paid to the seller through withholdings of amounts that would normally have been remitted to the Company under its distribution agreement.
- Warrants for up to 1,500,000 shares of the Company's stock were granted to the owner of the business from whom we purchased these assets. These warrants were determined to have an estimated fair value of \$572,000, which was calculated using the Black Scholes option pricing model.
- Additionally, the seller will receive a 7% royalty on sales in excess of \$6,500,000.

The total consideration paid was allocated to the patent and trademark based on their relative fair values. Fair values for the patent and the trademark were estimated with the assistance of a specialist based on the discounted royalty payments that have been avoided as a result of both assets being owned.

Intangible assets as of 31 December 2008 and 31 December 2007 and the movements for the years then ended are as follows:

	<u>Patents and Trademarks</u>	<u>Distributor and Customer Relationships</u>	<u>Capitalised Development Costs</u>	<u>Total</u>
<b><u>Cost</u></b>				
At 1 January 2007	564,585	423,138	-	987,723
Capitalised development costs			375,000	375,000
Other intangibles acquired during 2007	<u>1,224,499</u>	<u>847,501</u>		<u>2,072,000</u>

At 31 December 2007	1,789,084	1,270,639	375,000	3,434,723
Capitalised development costs			420,000	420,000
At 31 December 2008	<u>1,789,084</u>	<u>1,270,639</u>	<u>795,000</u>	<u>3,854,723</u>
<b><u>Amortisation</u></b>				
At 1 January 2007	169,694	77,585	-	247,279
Amortisation for 2007	<u>130,808</u>	<u>239,993</u>	<u>37,500</u>	<u>408,301</u>
At 31 December 2007	300,502	317,578	37,500	655,580
Amortisation for 2008	<u>125,573</u>	<u>254,127</u>	<u>79,500</u>	<u>459,200</u>
At 31 December 2008	<u>426,075</u>	<u>571,705</u>	<u>117,000</u>	<u>1,114,780</u>
<b><u>Carrying Amount</u></b>				
At 31 December 2007	<u>1,488,582</u>	<u>953,061</u>	<u>337,500</u>	<u>2,779,143</u>
At 31 December 2008	<u>1,363,009</u>	<u>698,934</u>	<u>678,000</u>	<u>2,739,943</u>

#### Note 9 Inventories

Inventories as at 31 December 2008 of \$409,085 (2007: \$697,498) consist primarily of finished goods.

In 2008 changes in finished goods recognised as cost of sales amounted to \$422,846 (2007: \$765,830).

In 2008 the write-down of inventories to net realisable value amounted to \$0 (2007: \$5,000). The write-down is included in cost of sales. There were no write-ups to inventory during the years ended 31 December 2008 and 2007.

#### Note 10 Trade and other Receivables

	<u>2008</u>	<u>2007</u>
<b>Loans to employees</b>	<b>\$ -</b>	<b>\$ 2,819</b>
<b>Trade account receivables</b>	<b><u>3,370,397</u></b>	<b><u>1,919,248</u></b>
<b>Total</b>	<b><u>\$ 3,370,397</u></b>	<b><u>\$ 1,922,067</u></b>

Trade account receivables include allowances for bad debts at 31 December 2008 and 31 December 2007 of \$10,461 and \$2,890,000, respectively. The allowance has decreased in 2008 due to write offs of accounts reserved for in prior periods as uncollectable.

#### Note 11 Capital

At 31 December 2008 the authorised share capital comprised 200,000,000 ordinary shares (2007: 200,000,000) and 15,000,000 preference shares (2007: 15,000,000). At 31 December 2008 there were 111,842,344 ordinary shares issued and outstanding (2007: 66,928,063) and no preference shares issued and outstanding (2007: nil). The ordinary and preference shares have no par value. All issued shares are fully paid.

The holders of ordinary shares are entitled to one vote per share at meetings of the Company. Holders of preference shares do not carry the right to vote.

During the year ended 31 December 2008, the Company issued 144,300 shares to members of the Board of Directors in compensation for their service as board members. Total expense recognized related to these Board of Directors fees were \$39,375 and were included in general and administrative expense.

In 2008, the Company also issued 23,939,844 shares of capital for the conversion of \$4,295,000 and \$1,114,822 of convertible notes and accrued interest, respectively. The interest expense recorded included \$798,628 recognizing the fair value on the beneficial conversion of the convertible debt.

#### Note 12 Loss Per Share

##### **Basic and Diluted Net Loss Per Share**

The calculation of basic and diluted loss per share at 31 December 2008 was based on the loss attributable to ordinary shareholders of \$534,802 (2007: 1,724,838). The weighted average number of ordinary shares outstanding for 2008 and 2007 was 92,706,529 and 62,264,974, respectively.

Diluted net loss per share is computed using the weighted average number of common and dilutive potential common shares outstanding during the period. Potential common shares consist of stock options, non-vested stock and warrants. Diluted net loss per common share was the same as basic net loss per common share for the years ended 31 December 2008 and 2007 since the effect of stock options, non-vested stock and warrants was anti-dilutive for all years. Instruments excluded from dilutive earnings per share, because their inclusion would be anti-dilutive, were as follows: employee and consulting stock options – 3,663,500 (2007:3,170,800); warrants 13,001,417 (2007:13,626,351); shares issued for the conversion of notes payable nil (2007: 20,825,000).

#### Note 13 Loans and Borrowings

Following is information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost.

	<u>2008</u>	<u>2007</u>
<b><u>Non-current liabilities</u></b>		
Secured bank loans	\$-	<u>346,097</u>
<b><u>Current liabilities</u></b>		
Convertible notes	-	3,997,493
Unsecured loans	90,000	320,480
Current portion of secured bank loans	-	32,374
Secured bank facility	-	<u>985,000</u>
	<u>90,000</u>	<u>5,335,347</u>
Total loans and borrowings	<u>\$90,000</u>	<u>\$5,681,444</u>

Terms and debt repayment schedule. Terms and conditions of outstanding loans were as follows:

			<b><u>31 Dec 2008</u></b>		<b><u>31 Dec 2007</u></b>	
	<b><u>Nominal</u></b>	<b><u>Year of</u></b>	<b><u>Face</u></b>	<b><u>Carrying</u></b>	<b><u>Face</u></b>	<b><u>Carrying</u></b>
	<b><u>Interest rate</u></b>	<b><u>maturity</u></b>	<b><u>value</u></b>	<b><u>amount</u></b>	<b><u>value</u></b>	<b><u>amount</u></b>
Secured bank loan	7.77%	2016	-	-	378,471	378,471
Secured bank facility	Prime + 2%	2008	-	-	985,000	985,000
Unsecured loan	10.00%	2007	-	-	175,000	175,000
Unsecured loan	10.00%	2008	90,000	90,000	90,000	90,000
Unsecured loan	7.50%	2008	-	-	55,480	55,480
Convertible notes	10.00%	2008	-	-	<u>4,120,000</u>	<u>3,997,493</u>
Total interest-bearing liabilities			<u>90,000</u>	<u>90,000</u>	<u>5,803,951</u>	<u>5,681,444</u>

### **Convertible Notes**

As of 1 January 2007 the Company had an outstanding balance of \$2,230,00 in convertible Notes with Brittany Capital. Between January and May 2007, the Company sold additional Convertible Notes totaling \$925,000 to Brittany Capital and on 31 May 2007, the Company entered into a new facility with Brittany Capital for up to \$4,500,000 of financing. The remaining balance on the Convertible Notes owing Brittany at 31 December 2006, as well as the \$925,000 borrowed during the first 5 months of 2007, were rolled into this facility with an additional \$675,000, which includes a premium

earned by Brittany on conversion of the Convertible notes in the amount of \$213,864, accrued interest of \$74,900 and an additional borrowing of \$386,236. From the date of this refinancing through the end of 2007, Brittany Capital made additional loans of \$1,250,000 to the Company. In addition, during 2007 Brittany Capital also elected to convert \$730,000 and \$238,706 in principle and accrued interest, respectively, into shares of capital.

As compensation for the total facility during 2007, the Company issued 250,000 shares of the Company's common stock as a closing fee. The value of the shares of stock issued was \$79,132, and was recorded as deferred financing fees, which were included in other assets. This amount was charged to interest expense in 2008 upon conversion of the convertible notes to capital.

During 2007, in conjunction with the re-financing of the convertible notes, all of Brittany's existing warrants to purchase up to 1,365,000 were modified to lower the exercise price to 30 pence per share. The Company calculated the difference between the modified warrants and the existing warrants immediately prior to the modification and determined that there was \$193,969 in incremental fair value resulting from the modification. This amount was recorded as additional discount on the notes and was recognized through interest expense over the term of the notes. In addition, the Company issued warrants to purchase common shares with Convertible Notes issued during the year, which were valued at \$70,194. The value of these warrants was initially recorded as a discount to the Convertible Notes payable. When these notes were refinanced in May 2007, this value was recorded in full as interest expense.

In June of 2008, the amount of convertible notes and accrued interest due Brittany, \$4,553,765, was converted into 22,738,824 shares of common stock. The company also recorded interest expense of \$798,628 resulting from the beneficial conversion feature of the notes.

On 14 January 2008, the Company issued 1,171,060 common shares to satisfy payment to respect of a promissory note due 22 November 2007. The outstanding balance of that loan as at 31 December 2007 was \$175,000.

### **Other Borrowings**

The Company has a \$1 million line of credit facility with a financial institute. During 2008 the company paid down \$985,000 and as of 31 December 2008 has no balance due on this account.

During 2008 the company paid off a long term note payable in the amount of \$378,471. The company also paid off the short term debt of \$55,480.

The Company is carrying a note of \$90,000 on its books that is unsecured and due to a private party.

### **Note 14 Share-based payments**

#### **Stock Warrants**

The Company has issued warrants to various employees and consultants of the Company for their services either in connection with the Company's ongoing efforts to raise capital or the development of the Company's products. In addition, the Company has granted warrants to lenders in connection with the issuance of debt. Each warrant granted may be exchanged for a prescribed number of shares of common stock. The warrants expire at various dates through July 2013.

	2008		2007	
<u>Warrants</u>	<u>Warrants</u>	Weighted average exercise <u>price</u>	<u>Warrants</u>	Weighted average exercise <u>price</u>
Outstanding at 1 January	14,199,850	0.74	6,376,417	1.17
Granted during the year	1,948,510	0.01	8,671,932	0.41
Forfeited during the year	-	-	-	-
Exercised during the year	(2,012,986)	(0.01)	(723,499)	(0.01)
Expired during the year			<u>(125,000)</u>	<u>(1.60)</u>
Outstanding at 31 December	<u>14,135,374</u>	<u>0.75</u>	<u>14,199,850</u>	<u>0.74</u>

The Company has adopted two option plans that permit the granting of options to purchase shares of common stock. The plans provide for the granting of both incentive stock options ("Incentive Stock Plan"), as defined in Section 422 of the U.S. Internal Revenue Code (the "Code"), and options defined by Section 422 of the Code ("Non-qualified options").

The plans are administered by a Compensation Committee, which is appointed by the Board of Directors, who grants all options and determines their terms. Options are non-transferable and are only granted to employees, officers and directors, and advisors or consultants who agree to be employed or to provide services to the Company for a period of at least one year after the grant date. The maximum term of any option under the plans is ten years, and generally vest over 3 years.

### Stock Options

Qualified option holders may exercise their options at their discretion through various dates ending September 2017. Each option granted may be exchanged for a prescribed number of shares of common stock.

	2008		2007	
Employee Plan - Qualified Options	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding at 1 January	1,372,300	\$0.36	2,464,900	\$ 1.04
Granted during the year	647,700	0.27	1,372,300	0.34
Forfeited during the year	(225,000)	0.47	( 960,000)	1.03

Exercised during the year	(50,000)	0.20	(10,000)	0.01
Expired during the year	-	-	(1,494,900)	1.03
Outstanding at 31 December	1,745,300	\$ 0.32	1,372,300	\$ 0.36

Directors Plan	2008 Options	Weighted average exercise price	2007 Options	Weighted average exercise price
Outstanding at 1 January	1,798,500	\$ 0.83	965,500	\$ 1.50
Granted during the year	-	-	1,017,500	0.32
Forfeited during the year	-	-	(95,000)	2.00
Exercised during the year	-	-	-	-
Expired during the year	(26,000)	1.00	(89,500)	1.00
Outstanding at 31 December	1,772,500	\$ 0.83	1,798,500	\$ 0.83

The Company has granted non-qualified options as follows:

	<u>2008</u>		<u>2007</u>	
<u>Non-qualified options</u>	<u>Options</u>	<u>Weighted average exercise price</u>	<u>Options</u>	<u>Weighted average exercise price</u>
Outstanding at 1 January	-	-	150,000	1.00
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	(150,000)	1.00
Outstanding at 31 December	-	-	-	-
Exercisable at 31 December	-	-	-	-

The options issued under the above three plans were valued using a Black Scholes option pricing model on the date of measurement. The weighted average measurement date fair values for options granted in 2008 and 2007 was \$0.27 and \$0.64, respectively.

The following weighted average assumptions were used in valuing the awards:

	<u>2008</u>	<u>2007</u>
Expected option term	5 years	5 years
Expected volatility	87.4%	90.6%
Expected dividend yield	0%	0%
Risk free interest rate	4.7%	4.3%

A summary of warrants and stock options outstanding and exercisable as of 31 December 2008 follows:

	Options Outstanding			Options Exercisable		
	Range of exercise prices	Number outstanding	Weighted average remaining life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
Stock Warrants	\$0.23 – 2.00	14,135,374	5	\$0.75	12,135,374	\$0.88
Employee Plan – Qualified Options	\$0.27 – 0.32	1,745,000	3	\$0.32	581,667	\$0.30
Directors plan	\$0.23 – 2.00	1,772,500	4	\$0.89	1,772,500	\$0.89

Note 15 Related Parties

During 2008 and 2007, Dr. Seckinger, a member of the Board of Directors, has served as Medical Director, pursuant to a consulting agreement. Dr. Seckinger was issued 339,427 shares of the Company's common stock in lieu of a cash payment of \$87,375 for 2007. No common stock was issued to Dr. Seckinger in 2008. In addition cash payments of \$38,000 and \$0 were also made in 2008 and 2007.

Raymond Akers is an uncompensated member of the Medical Advisory Board of Pulse Health LLC, a customer of the Company. Dr. Akers serves as advisor in relationship to the Technology transferred to Pulse Health during 2008.

In 2007 Mr. Nicolette was named President of the Company. In connection with this appointment, the Company has entered into a consulting arrangement with Mr. Nicolette's consulting company for a period of 3 years under which the Company must pay Mr. Nicolette's company \$20,833 per month in fees and up to \$10,000 in reimbursement for monthly expenses. In additions, under the terms of this arrangement, Mr. Nicolette is awarded warrants to purchase shares of stock annually, which are determined based on certain performance criteria outlined in the agreement. During 2008, the Company issued him 1,737,619 (2007: 573,499) warrants to purchase common stock. The warrants were valued using a Black Scholes option pricing model and were ascribed a value of \$330,148 (2007: \$447,000). Amounts paid under this arrangement have been recorded in general and administrative expense. In addition, during 2007 Mr. Nicolette received warrants to purchase 3,000,000 shares of stock. The warrants were valued using a Black Scholes option pricing model and were ascribed a value of \$757,836. Amounts paid under this arrangement have been recorded in general and administrative expense.

Commitments

**Operating Leases**

The Company leases office space in Thorofare, New Jersey under an operating lease with annual rentals of \$125,004 plus common area maintenance (CAM) charges. The lease, which took effect on 01 January 2008, reduced the CAM charges allowing the company to reach their own agreements with utilities and other maintenance providers. The Company's lease term expires 31 December 2012, but the Company may terminate early on or after July 1, 2010 for no penalty.

Rent expense including related CAM charges for the years ended 31 December 2008 and 2007 were \$152,004 and \$284,017 respectively.

#### Note 17 Provision

On 11 April 2005, CTS Distributing, Inc. ("CTS"), a former distributor for the Company, commenced an action against the Company in the District Court of Harris County, Texas. CTS's claims include breach of contract and fraud. The Company and its counsel believe these claims to be completely without merit. Discovery in this matter has begun and a trial was expected during the prior summer. The Company has not provided for any contingent liability within these financial statements. The Company accrued \$50,000 in relation to this litigation as of 31 December 2007.

On 07 January 2008, the Company settled an action brought by CTS Distributing, Inc. The settlement consisted of a payment of \$50,000 and the issue of 500,000 common shares of the Company.

#### Note 18 Subsequent Events

On January 5, 2009 the Company issued warrants to the members of the Board of Directors. Thomas Nicolette, Edward Mulhare, Raymond Akers and Daniel Seckinger were each granted 500,000 warrants. Charles Bunker was granted 110,000 warrants. All the warrants were immediately exercisable at an exercise price of £0.12 and have a 10 year term.