

## Regulatory Announcement

**Company** Akers Biosciences, Inc.  
**TIDM** AKR  
**Headline** Final Results  
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**AKERS BIOSCIENCES, INC.**  
(“ABI” or “the Company”),  
**Annual Results for the year ended 31 December, 2007**

Akers Biosciences, Inc. a leading designer and manufacturer of rapid diagnostic screening and testing products, announces its annual results for the year ended 31 December, 2007.

### **2007 Highlights**

- Revenues of \$5.5 million (2006: - \$1.0 million) are the highest in the Company’s history
- First positive EBITDA of \$1.4 million (2006: negative EBITDA of \$7.8 million)
- Maiden positive cash flow from operations
- Significant orders from United States military departments received and shipped
- \$4.5 million in fixed convertible debt financing completed during the period to enhance stability of capital structure
- Acquisition completed of ‘Bout Time Marketing, LLC, a distributor of breathalyzer product, providing a direct channel to the US Military for BreathScan<sup>®</sup> resulting in increased margins.
- New distribution arrangement signed for Tier 1 status with Cardinal Health, a distributor to over 4,000 US hospitals, resulted in a significant increase in sales of the PIFA Heparin/Platelet Factor-4 Rapid Assay.

### **Thomas A. Nicolette, Chief Executive Officer of ABI, commented:**

“In early 2007 we set about to effect a bold and immediate transition. Our strategy has been to transform the significant investment in our patented platform technologies over the past decade into real value by establishing routes to markets of our core products leading to profitable revenue generation. In 2007 we achieved that with the highest sales in the Company’s history, its first positive EBITDA from operations and the establishment of significant recurring revenue streams.

These are the foundation blocks upon which we intend to build our core product line sales both domestically and abroad and bring forward new and mass market potential products."

**Enquiries:**

Thomas A. Nicolette  
President and CEO  
Tel. +44 (0)20 7917 9476

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

Alasdair Younie  
Arbuthnot Securities Limited  
Tel. +44 (0)20 7012 2139

## **CHAIRMAN'S STATEMENT**

I am pleased to present on behalf of the Board the annual financial results of ABI for the 12 months ended 31 December 2007.

### **Financial Performance**

Revenues in 2007 of \$5.5 million (2006: \$1.0 million) are the highest in the Company's history. Positive EBITDA of \$1.4 million (2006: negative EBITDA of \$7.8 million) represents the company's maiden positive operating cash flow.

Revenues in 2007 were primarily driven by:

- sales of Breath Alcohol<sup>®</sup> and BreathScan<sup>®</sup> Alcohol Breathalyzers – most importantly to the US Military;
- ramp up sales of Heparin/Platelet Factor-4 antibodies test into a small hospital customer base which, with very satisfactory product acceptance by clinicians, is expected to contribute significantly to future growth; and
- initial sales of Battlefield Blood Transfusion Card to the US Military.

### **Business Review**

All of the Company's proprietary technologies provide the platform for high margin niche products, intended for use in specialized market segments. These market segments include: clinical laboratories, homeland security, military, OTC, industrial and consumer safety, doctor's surgeries, and clinical research. The Company's key signature products are detailed below.

#### **PIFA<sup>®</sup> Heparin Platelet Factor 4 Rapid Assay (HPF4)**

The Company's rapid HPF4 test is sold into the US clinical laboratory market through Cardinal Health and Corgenix Medical Group under the Company's brand "PIFA Heparin/PF-4 Rapid Assay." This is the first rapid test for HPF4 antibodies, and the product is protected by two of the Company's patents, with additional patents pending. The market response clearly indicates a significant clinical need for the product, and several studies have been presented at scientific meetings indicating that the Company's test may be more accurate than any competitor on the market.

In 2007 Cardinal Health signed a new distribution contract with the Company that guarantees that the product will remain in Cardinal's highest focus of products at least through 2008, and that the Company will be in the highest tier of supplier relationships. We are exploring additional ways to rapidly increase market penetration of this product.

Heparin is the most widely used intravenous anticoagulant, and is commonly used for the prophylaxis and treatment of thromboembolic disease, as well as numerous other applications including certain types of lung and heart disorders, and during or after a

variety of surgeries including open heart, bypass, dialysis and orthopedic procedures. Patients with recent exposure to heparin are at a much greater risk for developing Heparin-Induced Thrombocytopenia ("HIT"), than are those not having previously been given the drug. The Company's test detects the presence of Heparin/PF-4 antibody, which is associated with patients at risk for HIT, and is rapidly becoming a standard of care in hematology and cardiology.

The Company and its partners have initially promoted the use of the test as a replacement for current laboratory tests used in the detection of a heparin "allergy" or other serious thrombolytic reaction resulting from heparin treatment. The Company's product has significant advantages both in terms of cost and time to result. The Company's test takes minutes to perform, while the current laboratory tests take hours to perform on complex instrumentation. HIT can rapidly progress in minutes or hours, and can result in death or dismemberment. The Company's product is the only test available on the market that can provide real-time information that can be useful in formulating a clinical diagnosis. In 2006, over 3.5 million tests were performed [in the US?] using current laboratory tests to confirm a potential "heparin allergy" or HIT, primarily in cardiology and emergency medicine patients. There are compelling medical and economical reasons for replacing all of these annual laboratory tests with the Akers HPF4 rapid assay.

In 2007 new distribution relationships were established in the UK and Europe for this test and EU expansion is a core objective of the Company in the current year.

#### Breath Alcohol<sup>®</sup> and BreathScan<sup>®</sup> Alcohol Breathalyzers

The Company is the only manufacturer of portable, disposable alcohol breathalyzers in the US, offering both its own Breath Alcohol<sup>®</sup> brand and the recently acquired BreathScan<sup>®</sup>. Sales are generated through a rapidly expanding distributor network, as well as through direct sales.

In January 2007 the Company acquired certain assets of 'Bout Time Marketing ("BTM"), and now owns the Legal Limit product line, and BTM's customer base. The Company has already benefited from increased margins and distribution channels, and received contracts with the US Military in 2007. ABI believes that a stable, recurring business will be achieved in the near term, seeded by these initial contracts. Moreover, a patent was granted by the US patent and Trademark Office protecting certain features of the Legal Limit product, further strengthening this product line.

In addition to being earnings enhancing from the outset, the acquisitions the Company has made in 2006 and 2007 have established the Company as the premier force in portable alcohol breathalyzers in the US. These acquisitions also represent initial steps in the Company's strategy to transform the portable alcohol breathalyzer industry. The Company has positioned its breathalyzers as security and safety devices by enhancing the technology through the development of electronic readers.

Additional applications of the breathalyzer product line include a program to curb driving under the influence of alcohol. Also, the Company has introduced its DOT approved breathalyzer product to the transportation and maritime safety industries.

## TriCholesterol<sup>®</sup>

The Tri-Cholesterol Test Kit is the only FDA-approved rapid assay that provides a complete cholesterol profile of the patient, with semi-quantitative determinations of high-density lipoprotein (HDL) cholesterol, low-density lipoprotein (LDL) cholesterol, and total cholesterol levels in whole blood obtained from a finger stick. The Company plans to re-launch this product through new distribution channels currently being evaluated.

## Battlefield Blood Transfusion Card

The ABO Blood Group was the first to be identified and is the most significant for transfusion practice. Accurate testing of donor and recipient blood for ABO/D compatibility is essential for the prevention of hemolytic transfusion reactions. To respond to the unpredictable demands of battlefield transfusion support, the U.S. Military may use “the walking blood bank” as its blood supply. This requires on site identification of the donor and recipient blood types. The Battlefield Blood Transfusion Card can accomplish this task using only the card, a drop of blood, and a drop of a rinse reagent.

Following several successful clinical trials, the Company has received small orders from the US Military for this product. The demand for the product is expected to grow significantly since over 40% of blood transfusions in the military theatre of operations are performed under field conditions, and there is currently no other rapid test competition. The Company is in discussions with the US Military to expand the use of the product under field conditions.

## **Financial Review**

### Share Issues

During 2007, the Company's independent directors received an aggregate of 960,320 shares of the Company's common stock as payment for director's fees and other fees owing to them at the time of issuance in the amount of \$191,850

Also during the period Brittany Capital converted \$730,000 of Convertible Notes and \$175,595 of accrued interest into 2,276,504 shares of the Company's common stock. In addition the Company also issued 250,000 shares of common stock valued at \$79,132 in conjunction with the \$4.5 million convertible note payable dated 31 May 2007.

### Income Tax Benefit

The Company was able to continue to take advantage of a program in the State of New Jersey wherein companies that incur net operating losses are able to sell their state NOL's at a nominal discount to their implied value. The benefit recognized for 2007 was \$0.6 million vs. \$0.5 million for 2006.

### Liquidity and Cash Resources

During May, 2007, the Company refinanced the variable Convertible Notes due to Brittany Capital at 31 December 2006. Brittany issued new fixed Convertible Notes which extend the maturity of the 2006 and 2007 Notes until 31 December 2008. The Company utilized the new debenture to borrow an additional \$2.5 million from Brittany Capital. This facility, and a continuation of higher levels of revenues, should provide the liquidity the Company needs to meet its future obligations...

### **Senior Management**

In line with our objectives to move ABI into its commercial phase there have been a number of important adjustments to the senior management. Post the period end ABI announced the appointment of a very experienced executive, Thomas A. Nicolette, as Chief Executive Officer. He joined the company as President and Chief Financial Officer in February, 2007. The Board of Directors is pleased with the progress the Company has made under his leadership, Dr. Raymond F. Akers Jr. now holds the position of Executive Vice Chairman of the Board, and will continue to lead the development of new products and technical support of ABI's existing product portfolio. Robert J. Paratore, who has served as a senior member of the finance department of ABI for 6 years, has been promoted to Chief Financial Officer.

### **Product Development**

During 2007, the Company focused on

- 1) the expansion of its HPF4 product line;
- 2) the development of a free radical test to be used in conjunction with nutraceutical therapy;
- 3) the development of several different versions of its Battlefield Blood Transfusion Card for different uses in the US Military and hospital emergency room markets; and
- 4) the development of inexpensive electronic readers for its line of MicroParticle-Catalyzed Biosensor breathalyzers.

The Company has developed and received FDA approval for accessory products that will enable new customers to evaluate the HPF4 test more efficiently, and bring the test on-line faster. In addition, ABI plans to release a next generation test early in 2008.

The Company has also completed development of its test for free radicals, naturally occurring substances that are implicated in numerous disease processes, including cancer, cardiovascular disease, and arthritis. This test is designed to be used to determine the precise course of nutraceutical therapy, and is now being field tested.

The US Military has requested that the Company add certain features to its Battlefield Blood Transfusion Card for certain field uses. In addition, the US Military is interested in adding several additional tests to the Card to affect a more comprehensive testing panel.

The Company has also identified a market in hospital emergency rooms for a version of this Card in the detection of certain blood groups important in complications of pregnancy and birth defects.

The Company has also developed several inexpensive electronic readers designed to provide objective results reporting for its entire line of alcohol breathalyzer products, and the free radical test. These readers coupled with alcohol breathalyzers will be particularly useful in law enforcement, maritime and educational markets. The free radical test reader will be used to monitor efficacy and dosing requirements of anti-oxidant nutraceuticals.

### **Current Trading and Outlook**

During the first quarter of the current year the Company had been delivering the balance of the BreathScan<sup>®</sup> orders received in 2007 to the US Army. With that fulfillment now complete, our attention is turned toward supporting the US Military Safety Programs and pursuing new private sector initiatives for BreathScan<sup>®</sup>. As a result of the unprecedented publicity created since February by the recall of Heparin from the US and other markets by the largest manufacturer, interest in our PIFA<sup>®</sup> Heparin Platelet Factor 4 Rapid Assay is high. We intend to use this opportunity to grow sales of this test domestically and abroad in 2008 and beyond.

David Wilbraham  
Chairman

Akers Biosciences, Inc. and Subsidiaries  
Financial Statements

#### Consolidated Balance Sheets As of 31 December

	Note	2007 \$	2006 \$
<b>ASSETS</b>			
Non current assets			
Property plant and equipment	8	193,692	224,464
Intangible assets, net	9	2,779,143	740,444
Deferred financing costs		49,978	31,847
Other assets		12,633	12,633
Total non-current assets		<u>3,035,446</u>	<u>1,009,388</u>
Current assets			
Inventories	10	697,498	1,106,941
Trade and other receivables	11	1,922,067	617,036
Cash and cash equivalents		1,306,706	41,142
Other assets		93,920	228,458
Total current assets		<u>4,020,191</u>	<u>1,993,577</u>

Total assets		7,055,637	3,002,965
<b>EQUITY (DEFICIT)</b>			
Share capital	12	66,543,545	62,593,546
Accumulated deficit		(66,986,923)	(65,262,085)
Total equity (deficit)		(443,378)	(2,668,539)
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	14	346,097	384,699
Obligations under finance leases		-	1,845
Total non-current liabilities		346,097	386,544
<b>Current liabilities</b>			
Trade and other payables		1,692,160	1,817,063
Borrowings	14	5,335,347	3,281,062
Obligations under financial leases		-	12,829
Accrued interest payable		125,411	174,006
Total current liabilities		7,152,918	5,284,960
Total liabilities		7,499,015	5,671,504
Total equity and liabilities		7,055,637	3,002,965

Consolidated Statement of Operations  
For the years ended 31 December

	Note	2007 \$	2006 \$
Revenue		5,519,961	1,019,629
Cost of sales		(2,014,389)	(2,464,000)
Gross profit (loss)		3,505,572	(1,444,371)
Other income		17,279	-
Administrative expenses		5,100,403	6,596,770
Research and development expenses		163,393	786,676
Loss from operations		(1,740,945)	(8,827,817)

Interest expense		624,822	1,256,227
Loss before income taxes		(2,365,767)	(10,084,044)
Income tax benefit	7	640,929	489,070
Loss for the year		(1,724,838)	(9,594,974)
Basic and diluted loss per share	13	(0.03)	(0.17)
Weighted average basic & diluted common shares outstanding		62,264,974	56,787,413

Consolidated Statements of Changes in Equity (Deficit)  
For the years ended 31 December

	\$	\$	\$	\$
	Share capital	Capital reserves	Accumulated deficit	Total Equity
Balance at 31 December 2005	58,790,850	-	(55,667,111)	3,123,739
Loss for the year			(9,594,974)	(9,594,974)
Total recognized income and expense for the period	58,790,850	-	(65,262,085)	(6,471,235)
Issue of ordinary shares for products and services	256,484			256,484
Issue of ordinary shares in exchange of debt	3,397,847			3,397,847
Issue of ordinary shares for acquisition	148,365			148,365
Balance at 31 December 2006	62,593,546	-	(65,262,085)	(2,668,539)
Changes in equity (deficit) for 2007				
Loss for the year			(1,724,838)	(1,724,838)
Total recognized income and expense for the period	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 assets	572,018		572,018
Balance at 31 December 2007	66,543,545	-	(66,986,923) (443,378)

Consolidated Cash Flow Statements  
For the years ended 31 December

	2007	2006
	\$	\$
Cash flow from operating activities		
Loss for the year	(1,724,838)	(9,594,974)
Adjustments for:		
Provision for bad debts	86,129	2,804,149
Interest expense recognized in statement of operations	624,822	1,256,227
Noncash share based compensation	1,854,480	111,472
Provision for (reversal of) bifurcation charges related to convertible debt	(230,000)	230,000
Depreciation and amortization of non-current assets	460,083	199,095
Movements in working capital		
(Increase)/decrease in trade and other receivables	(1,391,160)	(217,408)
(Increase)/decrease in inventories	409,443	112,334
(Increase)/decrease in other assets	195,539	(81,125)
Increase in trade and other payables	106,753	50,017
	1,070,676	(4,994,031)
Income taxes paid	-	-
Interest paid	(209,058)	(175,280)
Net cash provided by (used in) operations	182,193	(5,305,493)
Cash flows from investing activities		
Purchase of property plant and equipment	(20,922)	(64,629)
Capitalized development costs	(375,000)	-
Purchase of intangible assets	(1,500,000)	(607,310)

Net cash used in investing activities	(1,895,992)	(671,399)
Cash flows from financing activities		
Proceeds from issuance of ordinary shares	274,611	-
Proceeds from new borrowings	2,758,028	4,532,145
Repayments of borrowings	(38,602)	(1,638,506)
Repayments of obligations under finance leases	(14,674)	(11,235)
Deferred financing costs	-	(36,847)
Net cash from financing activities	2,979,363	2,845,557
Net increase/(decrease) in cash and cash equivalents	1,265,564	(3,131,875)
Cash and cash equivalents at beginning of year	41,142	3,173,017
Cash and cash equivalents at end of year	1,306,706	41,142
Supplemental Disclosure of Cash Flow Information:		
Non-cash investing and financing activities:		
Conversion of debt and accrued interest payable into common stock	905,595	3,397,847
Issuance of stock for acquisition	-	148,365
Issue 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	-

## Summary of Significant Accounting Policies

### 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 product is a disposable breathalyzer test that measures the blood alcohol content of the user.

### 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 2007, the Company generated a net loss of \$(1,724,838). As of 31 December 2007, the Company has an accumulated deficit of \$ (66,986,923) and had cash and cash equivalents totaling \$ 1,306,706. In addition, a substantial amount of the Company's outstanding debt is due on or before 31 December 2008. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plan with regard to this uncertainty is to raise capital through additional equity offerings and continue to increase sales of existing and future products through existing customers and distribution networks. There can be no assurance that the Company will be successful in obtaining financing at the level needed or on terms acceptable to the Company. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### Basis of Presentation

#### Statement of compliance

The consolidated financial statements of Akers Biosciences, Inc. ("Akers" or the "Company") are prepared in US dollars and in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements of Akers were prepared under the historical cost convention, except as disclosed in the accounting policies below. On April 2, 2008, the Board of Directors authorized the financial statements for issue.

#### 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.

### 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.

### Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, 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 judgments 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.

### Transition to International Financial Reporting Standards

These consolidated financial statements are the first consolidated financial statements for the company prepared using International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. For the purposes of these consolidated financial statements, the date of transition to IFRS is 1 January 2006. Previously, the Company prepared its consolidated financial statements in conformity with generally accepted accounting principles in the United States (US GAAP). The Company's most recent consolidated financial statements issued under US GAAP were for the year ended 31 December 2006.

Certain amounts have been reclassified as of 31 December 2006 and for the year then ended to conform to presentation under IFRS. The impact of the adoption of IFRS as of 1 January 2006 was not material to shareholders' equity as of that date. In addition, there were no significant differences between the statements of operations for the year ended 31 December 2006 under US GAAP and IFRS.

### 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.

### 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. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

#### 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.

#### 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.

#### Research and 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 finite 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

#### 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.

## 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.

## 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.

## Finance income and expenses

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

## 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.

## 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.

#### 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.

#### Non-derivative financial liabilities

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.

#### Income Tax Expense

During 2007 and 2006, 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 \$650,083 and \$483,086 in 2007 and 2006, 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. Also, included in the net state tax benefit for 2007 and 2006 are other minimum state taxes and benefits.

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 2007 and 31 December 2006.

#### Intangible Assets

On February 27, 2006, the Company completed the acquisition of certain intangible assets of its then largest distributor of its disposable alcohol breathalyzers. The total consideration for the transaction, including a subsequent payment later in 2006, was \$756,238, consisting of \$607,873 in cash and the issuance of 125,000 shares of the Company's stock.

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 2006 and 2007 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.

### Inventories

Inventories as at 31 December 2007 of \$697,498 (2006: \$1,106,941) consist primarily of finished goods.

In 2007 changes in finished goods recognised as cost of sales amounted to \$765,830 (2006: \$380,975).

In 2007 the write-down of inventories to net realisable value amounted to \$5,000 (2006: \$472,000). The write-down is included in cost of sales. There were no write-ups to inventory during the years ended 31 December 2007 and 2006.

### Capital

At 31 December 2007 the authorised share capital comprised 200,000,000 ordinary shares (2006: 80,000,000) and 15,000,000 preference shares (2006: 15,000,000). At 31 December 2007 there were 66,928,063 ordinary shares issued and

outstanding 2006: 60,347,578 and no preference shares issued and outstanding (2006: 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 2007, the Company issued 960,320 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 191,850 and were included in general and administrative expense.

In 2007, the Company also issued 2,276,504 shares of capital for the conversion of \$730,000 and \$175,595 of convertible notes and accrued interest, respectively.

The Company also issued 250,000 shares to extend the convertible notes payable. The value of the shares issued amounted to \$79,132 and was recorded as deferred financing fees.

### Loss Per Share

#### Basic and Diluted Net Loss Per Share

The calculation of basic and diluted loss per share at 31 December 2007 was based on the loss attributable to ordinary shareholders of \$1,724,838 (2006: 9,594,974). The weighted average number of ordinary shares outstanding for 2007 and 2006 was 62,264,974 and 56,787,413, 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 2007 and 2006 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 antidilutive, were as follows: employee and consulting stock options – 3,170,800; warrants – 13,626,351; shares issued for the conversion of convertible notes payable – 20,825,000.

### Convertible Notes

Between January and May 2007, the Company sold additional Convertible Notes totaling \$925,000 to Brittany Capital. 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 into shares of capital. During 2006, the Company recorded a bifurcation charge of \$230,000 related to the variable conversion feature on the convertible notes, which was added to the carrying amount of the convertible notes. In the May refinancing, the conversion feature was fixed and as a result, the bifurcation was reversed.

As compensation for the total facility, 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 are included in other assets.

The Notes are convertible into the Company's common stock at any time, at 10 pence per share and may be redeemed by the Company at 105% during the first 6 months and 110% thereafter. Brittany may convert within 3 days of receipt of any redemption notice from the Company. The Notes, if not converted, will mature on December 31, 2008 and bear interest at 10% per annum.

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 will be recognized through interest expense over the remaining 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.

During 2007, the Company also converted accounts payable of \$90,000 to an unsecured loan.

### 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.

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.

### Commitments

#### Operating Leases

The Company leases office space in Thorofare, New Jersey under a noncancellable-operating lease with annual rentals of \$152,004 plus common area maintenance (CAM) charges. 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 2007 and 2006 were \$284,017 and \$247,892 respectively.

#### 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.

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.

### Subsequent Events

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

END