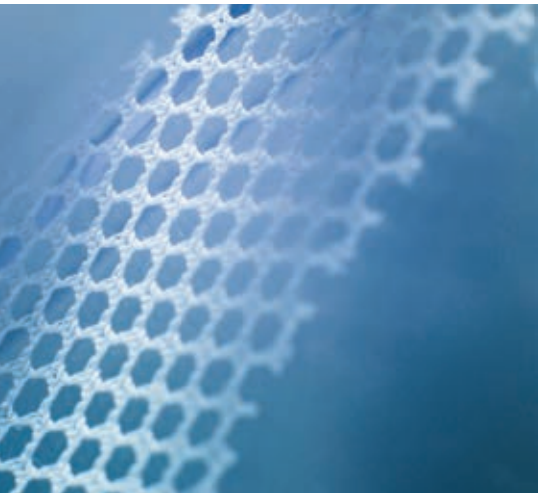
Lifeline Scientific
Annual Report 2013

advancing transforming extending improving lives

innovative technology to help clinicians improve outcomes in transplantation



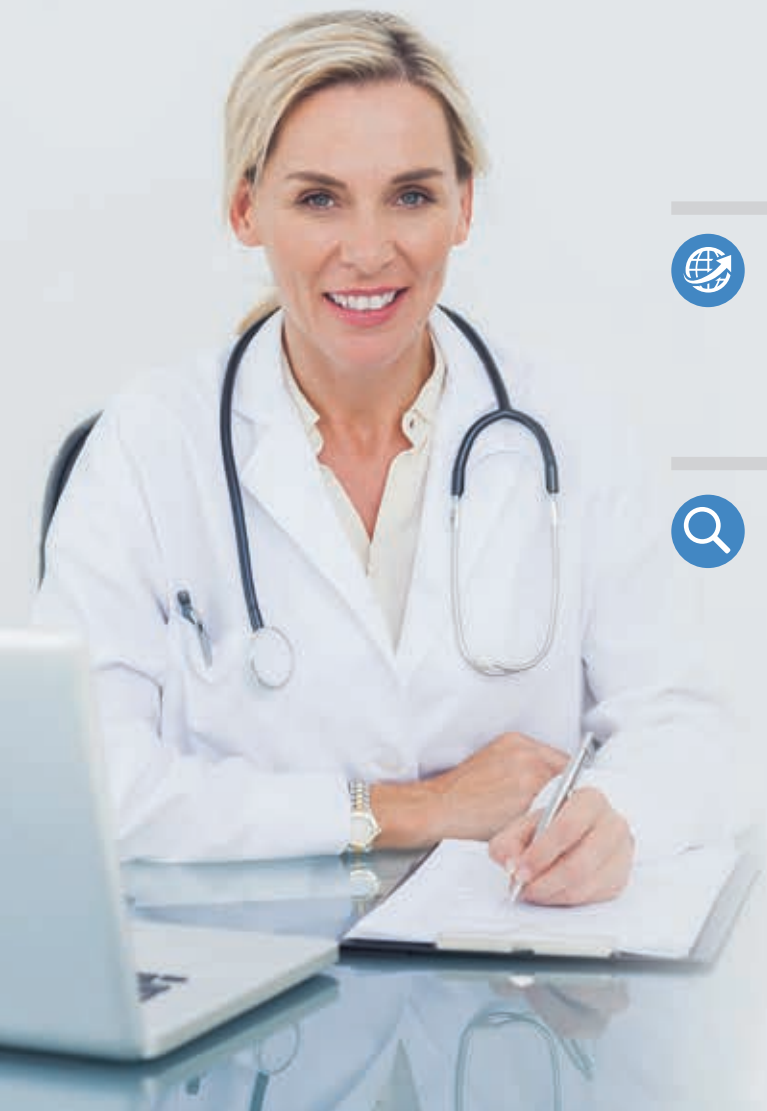
Founded in 1998, Lifeline Scientific, Inc. (LSI) is a market-leading developer of products and services for cell, tissue and organ transplantation. From its Chicago headquarters and regional offices in Brussels and São Paulo, the Company serves 160 transplant programmes in 27 countries.

LifePort® Kidney Transporter

In 2013, the installed base and use of our core product grew significantly.

Our highlights

Advancing organ transplant technology



Lifeline Scientific is delivering

New product innovations

- Universal SealRing® Cannula allows broader range of renal vascular access and LifePort connectivity.
- A custom designed rolling luggage cover providing enhanced portability for LifePort Kidney Transporter.
- LifePort Liver Transporter advanced through final design and development. Built upon the proven platform of LifePort Kidney Transporter, this novel device is designed to help clinicians improve outcomes.
- LPS-1, a new liver machine perfusion solution designed to work in complement with LifePort Liver Transporter.

Geographical expansion

- New sites and expanded application for LifePort in EU, Brazil and China markets.
- Our first European national tender award was granted by France in late 2013, providing a solid platform for expanding sales in the EU.

New clinical evidence

- Prospective study results examining 3 year outcomes data demonstrated a significant long-term graft survival benefit for all standard and expanded criteria donor kidneys preserved on the LifePort Kidney Transporter[(1)].
- A retrospective study of approximately 95,000 US renal transplants concluded that machine preservation is associated with a reduction in delayed graft function (DGF), irrespective of donor type[(2)].
- A study by the University of Columbia presented at the January 2014 American Society of Transplant Surgeons Winter Symposium concluded that machine perfusion of livers on an early prototype reduced post-transplant complications thus leading to improved patient outcomes and shorter length of hospital stays.

(1) Moers C *et al*, *N Engl J Med*, 2012:336**:770**-1
(2) Gill J *et al*, *Transplantation*, 2014**:97/01**

Our LifePort Kidney Transporter

Transforming patient outcomes

The cornerstone of our clinical products portfolio today is LifePort Kidney Transporter, and its family of branded medical solutions and consumables employed per each kidney transplant procedure.

Introduced late in 2012, the new generation LifePort Kidney Transporter 1.1 offers remote monitoring with GPS/GPRS capabilities, among many other novel features, and has become the market-leading machine preservation device for kidneys.

Donated kidneys are lifesaving gifts. Organ preservation from the point of donation to recipient implant is a critical step in maximising the opportunity for a clinically successful outcome. With this in mind, the proprietary LifePort Kidney Transporter was designed to above all provide maximum protection for the kidney during the period of ex vivo (out of the body) transport.

LifePort employs "active" preservation of the kidney within a sealed, sterile environment. A cooled, specifically formulated, solution is gently pumped through the organ to flush out toxic metabolites and minimise ischemic damage. As a result, LifePort Kidney Transporter has proven to enhance the potential for kidney transplants to function sooner and last longer with fewer complications.

The recently introduced LifePort Kidney Transporter 1.1 upgrade captures and displays key performance data in real time through on-board digital readouts showing patient ID number, blood type, temperature, diastolic and systolic pressure, perfusion flow and renal resistance. These data are transmitted to a passcode encrypted website via an embedded GPS/GPRS system so the LifePort's location and the baseline kidney functionality can be monitored continuously during transport.

Key benefits

Significantly improved graft survival

in all transplanted kidneys machine preserved in the LifePort Kidney Transporter[1]

Proven to enhance the potential

for kidney grafts to perform better post-transplant with less complications

Increase the supply

of kidneys for transplantation by improving accessibility of expanded criteria donor kidneys

What's driving demand?

Demand for LifePort Kidney Transporter is driven by many factors:

1) the increase in end-stage renal disease patients requiring kidney transplants;
2) the limited number of viable donor organs available for transplantation; and
3) the increasing use of organs from older donors with comorbid medical conditions.

Kidney transplants are performed on patients with end-stage renal disease which is often secondary to complications from type 2 diabetes. The incidence of diabetes is increasing, with the total number of people with diabetes projected to rise globally from 171 million in 2000 to 366 million in 2030[1].

According to the World Health Organization (WHO), transplantation offers the best and most cost-effective treatment for end-stage kidney failure in terms of survival and quality of life, compared with the alternative of chronic life-long renal dialysis and medication. More than 77,000 kidneys were transplanted in 2012 in over 101 countries around the world, but demand far exceeds supply[2].

Furthermore, the number of people needing dialysis for end-stage renal failure is likely to double in the next 10 years (source: UK National Kidney Federation). Some will go on to the ever-growing waiting list for a life-saving transplant. In the US alone, nearly 100,000 candidates are currently on official waiting lists (source: Organ Procurement and Transplantation Network – OPTN). Every donor kidney is precious and deserves maximum protection to ensure that viability is maintained between donor and recipient. Increasing the quality of organs from deceased donors (cadaveric organs) offers a promising opportunity to increase the quantity of available kidneys.

Historically, the use of deceased donor organs was restricted to those from healthy donors (standard criteria donors – SCDs). To address the challenge of rising demand and diminishing numbers of healthy donors, the medical community established broader donation criteria such as expanded criteria donors (ECDs). Expanded criteria donors are typically defined as age 55 or older with secondary health conditions such as hypertension or diabetes mellitus. Organs from these donors now comprise nearly half of the deceased donor kidneys transplanted in the US and EU. However, wider use of these organs can be associated with a significant incidence of DGF, and therefore many ECD kidneys are discarded if they appear unsuitable. A retrospective study[3] of all transplants in the US between 2003 and 2011 showed that delayed graft function was significantly reduced in ECD kidneys if they were machine perfused prior to transplant with the suggestion that active perfusion should be considered as a pre-cursor for all ECD kidneys.

(1) Moers C *et al*, *N Engl J Med*, 2012:336**:770**-1
(2) Data from the *Global Observatory on Donation and Transplantation*, produced by the WHO-ONT collaboration
(3) Gill J *et al*, *Transplantation*, 2014**:97/01**

Our offering

Creating new systems

Addressing important unmet needs in the fields of clinical transplantation and medical research.

> “We are dedicated to helping clinicians improve transplant outcomes.”

David Kravitz
CEO, Lifeline Scientific

LifePort Liver Transporter

Universal SealRing Cannula

The Universal SealRing Cannula with innovative ease-of-use features was successfully introduced to the market drawing favourable reviews from transplant surgeons. Initial observations suggest it allows a broader range of renal vascular access and LifePort connectivity, which should enable more kidneys to be perfused. This invention also uniquely enables LifePort use with living donor kidneys, a potential new market.

LifePort Liver Transporter

The development of our proprietary LifePort Liver Transporter progressed significantly in 2013. Driven by initial promising clinical results from a cohort study at New York's Columbia Medical University employing an early prototype and our novel medical perfusion solution, we readied the LifePort Liver Transporter for its regulatory filings in 2014. With initial clinical data suggesting that hypothermic machine preservation provides improved patient outcomes and lowers overall costs of liver transplantation, we are diligently working to support product registration for the US and EU along with manufacturing scale-up and pre-market launch preparations.

Liver Perfusion Solution, LPS-1

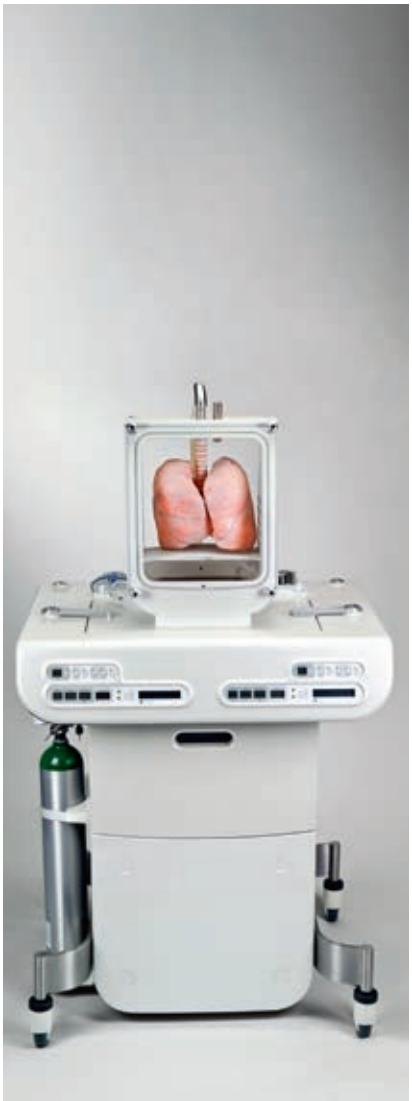
Our novel, liver perfusion solution has been successfully employed to preserve livers in a controlled clinical transplant study. The solution is designed to improve on today's technology by combining selected cytoprotective and resuscitative agents as supplements to our baseline perfusate in order to counteract ischemia/reperfusion injury. Specific targets include reactive oxygen species, pro-inflammatory cytokines and other cell stress mediators that lead to death by apoptosis or necrosis.

LifePort WorkStation

LifePort WorkStation is designed as an 'Intensive Care Unit' for organs. The device is designed to accommodate a wide range of medical solutions, temperatures and additive gasses while allowing seamless docking between the LifePort family of organ-specific cassettes. LifePort WorkStation is in late stage pre-clinical development.

Our focus

Innovation for transplantation



LifePort WorkStation

Our technology focus is to develop innovative medical devices, preservation solutions, and protocols for solid organ, tissue and cell transplantation. We are dedicated to helping clinicians improve transplant outcomes by providing improved organ viability in the critical period between donor organ recovery and recipient transplantation.

Our business units

Organ Recovery Systems

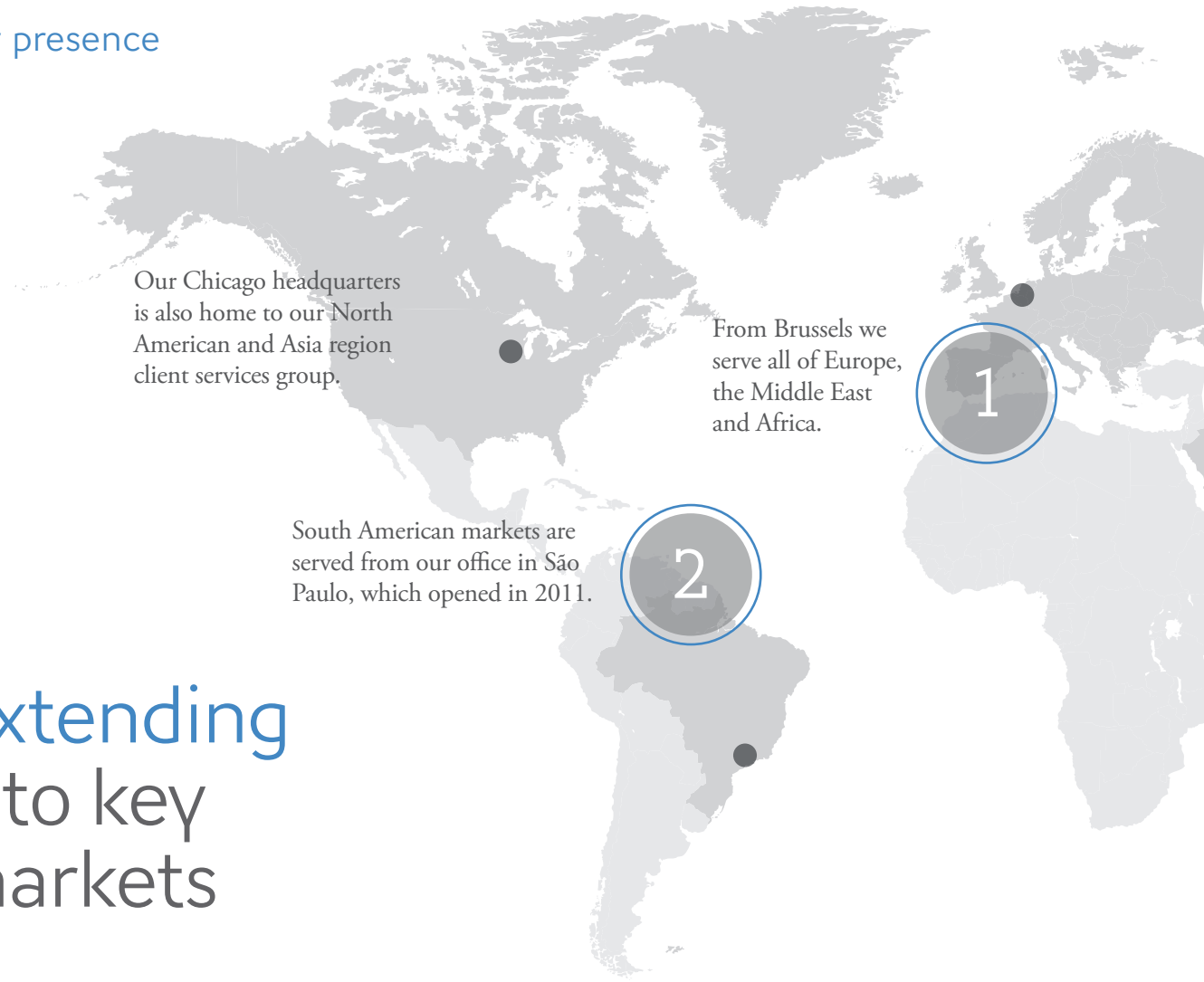
Organ Recovery Systems is our market-facing brand within the field of transplant medicine. Our clinical and sponsored research activities worldwide are conducted under the Organ Recovery Systems label. Our products are designed to help clinicians improve the quality and quantity of organs for transplantation and thereby address the unmet needs of end-stage organ disease patients waiting for a life-saving transplant.

LifePort Kidney Transporter, the market-leading machine preservation device for kidneys, and a suite of proprietary single-use disposable products and organ preservation solutions are distributed under the Organ Recovery Systems brand. Our solution packaging innovations improve product storage, handling, and shelf life properties. LifePorts and novel solutions designed for preservation of other organs are in development, with the LifePort Liver Transporter next in line for commercial launch.

Cell & Tissue Systems

Our Cell & Tissue Systems laboratory provides research and development of preservation technologies for transplantable biological materials. Funded primarily through scientific research grants, its mission is to define and design the conditions for storage and distribution of cell therapy products, tissues, organs and tissue engineered constructs.

Our presence



Extending into key markets

While growing our market-leading presence within North America, we have made significant strides into new territories worldwide.

1 / France

Currently among the largest national venues in Europe for kidney transplants.

2,687

Deceased donor kidney transplant procedures carried out in 2012.

23

Public hospital transplant programmes will be supplied with LifePort Kidney Transporters and related accessories after Organ Recovery Systems won a competitive national tender.

2 / Brazil

Significant growth opportunity exists in Brazil.

600

Clinical kidney transplants have now been conducted with LifePorted kidneys.

8

Leading transplant programmes in the country have adopted LifePort Kidney Transporter.

● Lifeline Scientific offices:
Chicago, Brussels, São Paulo.

3

With offices throughout China, our Shanghai based distributors are specialist providers of transplant therapeutics, devices and support services.

3 / Focus on China

China, with its rapidly rising end-stage renal disease population, and growing demand for kidney transplants, could become the world's largest national venue for renal transplantation with a reported 165 licensed kidney transplant centres today and dozens of additional centres anticipated in the future. In 2013, positive clinical results were reported from a 100 patient multi-centre LifePort Kidney Transporter feasibility study and several subsequent single centre transplant studies at the Chinese National Transplant Symposia in November. Regulatory registrations for our full product line are anticipated in 2014 followed by a national commercial launch of LifePort and solutions products.

300

LifePort Kidney Transporter is reported to have been deployed in more than 300 clinical transplants as part of its initial pre-market introduction protocol.


“We start 2014 well positioned to advance on the opportunities available to us.”

Chairman's statement

We are reporting full year revenues ahead of previous expectations and operating profit well ahead of previous market expectations.

I am delighted to report that 2013 has been another year of solid growth, with the positive momentum seen in the first half of the year continued into the second. As a result, we are reporting full year revenues ahead of previous expectations and operating profit well ahead of previous market expectations. We continue to be very well positioned in our home US market, and combined with good progress in key emerging markets, we expect to see strong demand for our products and services continue in 2014.

Full year revenues grew by nearly 10.2% to US$33.2m (2012: US$30.2m). Transplantation products and services revenues increased 11.1% to US$32.4m (2012: US$29.1m), with much of the growth driven by significant orders from Brazil and China for our flagship LifePort Kidney Transporter and related products in the second half.

Revenues from single-use consumables, which also includes flush and preservation solutions, increased by 6%. A key measure of our performance is the sale of our proprietary single-use consumables for the LifePort Kidney Transporter. Sales of these higher margin products increased by 13.9% compared to last year of US$18.4m (2012: US$16.1m). Sales of proprietary consumables associated with the LifePort Kidney Transporter now represent 56.7% of transplantation related revenues (2012: 55.3%).

Revenues from our more mature North American home market rose 2% to US$24.3m (2012: US$23.8m). Sales outside of this core market rose 52% to US$8.0m (2012: US$5.3m), with sales in Brazil and China more than doubling to US$3.18m (2012: US$1.4m).

Gross profit increased by 8.7% to US$19.9m (2012: US$18.3m) with a Gross margin of 59.8% in line with last year (2012: 60.6%) due in part to strong sales of the Company's LifePort Kidney Transporters of US$1.7m (2012: US $0.6m) and the resulting business mix.

Operating profit improved significantly to US$1.9m (2012: US$0.1m), due to sales growth, the result of a non-recurring legal settlement, and a reduction in research and development for the year. Operating profit adjusted for non-recurring items is US$0.9m (2012: US$0.1m). This adjustment is namely the recognition of a favourable US$1.0m legal settlement from a third party, further details of which are given below. Adjusted Pre-tax profit (Income before income taxes) increased to US$0.9m (2012: US$0.05m), with a reported Pre-tax profit of US$1.9m. The Company will report Basic earnings per share of US$0.15 (2012: US$0.01 loss).

The cash position of the Company remains healthy, with cash balances as at 31 December 2013 of US$3.0m (30 June 2013: US$3.0m), reflecting investments in both working capital to support growth, and development costs associated with our LifePort Liver Transporter. Overall R&D spending reduced slightly to US$2.9m (2012: US$3.2m). Net cash used in operating activities came to US$0.4m (2012: US$1.5m), reflecting a large increase in receivables due following significant orders received at the end of the year, as well as an investment in inventory to support the strong order pipeline from China, Brazil, and the French tender win.

As outlined at the Half Year Results, the Company settled a dispute with a third party during the year. Under the settlement, the Company is owed US$1.0m, payable through April 2015. The Company has recognised the settlement amount as a reduction to selling, general, and administrative expenses in the consolidated statements of operations. As of 31 December 2013, the Company has received payments of US$391,301 related to this settlement.

Revenues for the period since the year end have been encouraging and are in line with our expectations for the first quarter. We have seen continued strong demand from our core markets in the US and Europe, and we remain confident about the future growth prospects in Brazil and China.

I would like to thank the Board and staff for their excellent work throughout the year and their valuable contribution to the strong performance of the business. We start 2014 well positioned to advance on the opportunities available to us and I look forward to reporting on the continued success of the Group over the coming year.

John Garcia
Chairman


“ At the end of the financial year we had an installed base of LifePorts at 160 transplant centres in 27 countries. ”

Chief Executive's review

Our long-term strategic initiative to invest in geographic expansion continues to pay off as the installed base of LifePorts increased in key growth territories.

We have been progressing in three areas, each of which is discussed over the next few pages.

New product innovations

Geographical expansion

New clinical evidence

Our 2013 performance reflects the continued success of extending our expertise within the North American transplant market to key growth territories abroad. Most significantly, in the second half of this year strong demand for our flagship LifePort Kidney Transporter and related products resulted in significant orders from Brazil and China. We also experienced strong growth in revenues from Europe throughout the year.

We are immensely grateful as a Company that transplant professionals worldwide now have access to the LifePort Kidney Transporter; a product shown to improve transplant outcomes and help increase the number of kidneys available for transplantation.

At the end of the financial year we had an installed base of LifePorts at 160 transplant centres in 27 countries, with LifePort adopted for machine preservation in 19 new transplant programmes during the year.

Geographical expansion

We continue to achieve steady revenues from transplantation products within our core North American market. The region is presently the largest contributor to revenues, accounting for just over 75% of worldwide revenues.

Our long-term strategic initiative to invest in geographic expansion continues to pay off as the installed base of LifePorts increased in key growth territories, particularly in the EU, Brazil, and China, driving incremental sales of our proprietary LifePort Kidney Transporter consumables. With transporter sales worldwide nearly tripling in the period to US$1.7m (2012: US$0.6m) we expect to see additional benefits from the pull through of higher margin single-use consumable items in 2014.

Strategic Europe/Rest of World (ROW)

Sales in Strategic Europe (ROW), which we define as sales from outside of the Americas and China, were very encouraging, having increased by nearly 25% to US$4.9m (2012: US$3.9m). During the period, CE mark certification renewal was secured for our LifePort Kidney Transporter family of single-use disposable products.

Among the largest markets in Europe for kidney transplants is France with a reported 2,687 renal transplant procedures from deceased donors performed in 2012. During 2013 the French transplant authorities concluded an extensive clinical, logistical and technical review of LifePort Kidney Transporter, as part of the French health ministry's competitive national tender for machine preservation products. Soon after calendar year end 2013, we were very pleased to announce our winning of the national tender to exclusively supply LifePort Kidney Transporters and related products to kidney transplant centres across 23 public hospitals in France. This is a significant contract in terms of our European expansion, and as mentioned in our Outlook, it provides an important contribution to our Company's growth in 2014.

Chief Executive's review (continued)

Strategic Europe/Rest of World (ROW) (continued)

Market access negotiations in Germany continued to advance with the aim of establishing contract terms and a harmonised national clinical protocol for Germany's formal evaluation and potential national implementation of LifePort reimbursement.

Brazil

Brazil represents a significant market opportunity for the Company, with an estimated 135 transplant programmes performing a reported 4,500 kidney transplants annually from deceased donors. The country also reports a rapidly growing trend of end-stage renal disease, with chronic dialysis or transplant as the only therapies.

We continue to work closely with the Brazilian Government to develop a pragmatic solution to challenges associated with the importation of our products, chief among them being long cycle times from institutional order placement to successful importation and delivery. The solutions under consideration include a national purchase contract wherein the federal government would acquire LifePorts on behalf of Brazilian state or federal government hospitals. We will provide an update as talks progress during 2014.

In mid 2012 we received ANVISA regulatory approval for commercial sale of our full suite of products in Brazil. Revenues from LifePort Kidney Transporters and related consumables increased by 51% in 2013 to US$1.9m (2012: US$1.3m).

To date, over 600 LifePorted kidneys have been transplanted at eight leading transplant centres in Brazil. Excellent post-transplant results have been reported by clinicians and we expect this number to increase in 2014. We are also in process of securing ANVISA regulatory approval for our new LifePort 1.1 with embedded GPS/GPRS, among several other meaningful new features.

China

Over the last several years, China's national transplant system has been undergoing transformational improvements. This initiative is based upon an adaptation of North America's successful model for organ donation, procurement management, and algorithm-based donor organ allocation, and is fully backed by China's national health ministry. Based upon progress to date, in the coming years this region may become one of the largest national venues for the Company's products and services.

Today China reports having a network of over 165 licensed renal transplant centres with dozens more centres anticipated to be developed due to rising demand. Chinese health authorities have described a growing trend in end-stage renal disease, which in turn drives increased needs for kidney transplantation. In concert with the nation's comprehensive transplant system overhaul, the Company has made considerable investments in establishing key national distributor and transplant centre relationships. These efforts are showing promise as we achieved a significant uplift in revenues over the year to US$1.3m (2012: US$0.1m).

The full commercial launch of LifePort Kidney Transporter in China will be driven by the timing of Chinese regulatory approvals. Our products have been in the process of registration with China's FDA for the last two years and we remain optimistic these approvals will come in 2014. We are confident that positive results recently reported from the inaugural seven centre, 100 patient LifePort feasibility study, and subsequent successful follow-on single centre studies, will help accelerate the regulatory approval process.

Presently, LifePort Kidney Transporter is imported to China under a research protocol. This has been a successful interim measure, as seen by the sales uplift described above, and by encouraging outcomes data reported by clinicians at China Society of Transplantation congresses over the last few years. We are also very encouraged by recent public presentations and statements by Huang Jiefu, Head of the National Organ Transplantation Committee, and other surgeon leadership, regarding progress of the new national policy for deceased organ donation, which includes the recognition that machine preservation technologies have a considerable positive impact on the success of organ transplant procedures. This momentum suggests we may potentially see robust nationwide adoption of our products following Chinese regulatory approval and full commercial launch.

> “Recently, we were gratified to receive initial interest for the LifePort Liver Transporter from key opinion leaders within the Chinese liver transplant surgical community.”

New Clinical Evidence

The body of scientific publications providing clinical and economic evidence in support of hypothermic machine preservation continued to grow over the year. New data was produced from the landmark European Machine Preservation Trial (MPT), an independent, multi-national, randomised, controlled trial comparing outcomes of LifePort machine preserved kidneys with the traditional method of static cold storage (ice-box preservation).

Study results of three year outcomes data from the MPT demonstrated a significant long-term benefit for organ survival following the use of LifePort for routine clinical use in expanded criteria donor kidney (ECD) transplantation. The study was published in the March 2013 edition of *Transplant International*. Notably, the data showed that only 32.9% of ECD kidneys with Delayed Graft Function (DGF) survived if statically stored, compared with 68.7% of kidneys preserved on LifePort. DGF often occurs in ECD kidneys, and is known to adversely impact near and long-term graft performance and survival rates.

In January 2014, the medical journal, *Transplantation*, published a retrospective analysis of the impact of machine preservation on close to 95,000 renal transplants in the US between 2000 and 2011. The study, conducted by University of British Columbia transplant specialists, concluded that machine preservation leads to improved patient outcomes by reducing DGF over cold static storage.

New Product Innovations

Universal SealRing Cannula

Our new Universal SealRing Cannula with innovative ease-of-use features was successfully launched during the year and drew favourable reviews from transplant surgeons and organ procurement professionals. Initial observations suggest the new cannula allows a broader range of renal vascular access and LifePort connectivity which should enable more kidneys to be indicated for LifePort vs. the box of ice. This invention also uniquely enables LifePort use with living donor kidneys, a potential new market.

LifePort Liver Transporter

The development of our proprietary LifePort Liver Transporter has progressed in line with expectations. As highlighted above R&D costs reduced slightly in the year, reflecting the end of LifePort Liver Transporter’s major R&D spend phase and the focus on pre-commercial launch market activities.

Our LifePort Liver Transporter commercial prototype received favourable reviews in its US debut at the American Transplant Congress in 2013. Data from initial clinical liver transplants using LifePort’s early prototype and proprietary new solution at New York’s Columbia Medical University were encouraging, suggesting that LifePort could provide unique clinical and cost benefits. Initially observed were improvements in patient outcomes, as well as a lowering of the overall cost of near-term post-transplant care, compared to the status quo of ice box storage. These observations were based upon results from a cohort study of 42 clinical transplantation procedures, including 31 expanded criteria livers that had been rejected upon offer by other centres within the region.

The process of regulatory registration is well underway for both the US and EU. While timing for achieving regulatory clearances cannot be predicted, we continue to aim for commercial availability late in 2014.

Recently, we were gratified to receive initial interest for the LifePort Liver Transporter from key opinion leaders within the Chinese liver transplant surgical community. End-stage liver disease is a significant and growing problem in China. We are currently in discussions with our Chinese colleagues to explore ways in which the LifePort Liver Transporter might be clinically employed under humanitarian use or research protocols prior to full regulatory approval.

LifePort Rolling Transport Cover

Designed to add additional protection and mobility for LifePort logistics management, the new rolling transport cover also allows for user friendly storage of key documentation and other elements required to be stored during organ recovery and transport from the point of donation to recipient bedside. This innovation further supports LifePort’s ability to travel as unattended cargo while fully operational.

Chief Executive's review (continued)

Research Innovations

Recognising that innovation from independent investigators has always been an important part of transplant medicine, the Company sponsors a number of strategically selected academic research programmes aimed to advance the state of the art of organ, tissue, and cell preservation for transplantation. While not material to our overall budget, our sponsorship is most often provided through transfers of our products or support services in exchange for certain intellectual property rights. We are also party to several third party institutional grant funded research projects.

Our research focus follows published priorities of the major US and European clinical transplant societies in three main areas: Basic Science, Translational Science (including pre-clinical models designed to advance translation of validated mechanistic discoveries to clinical applications), and Clinical Science. Our most potentially promising and important research programmes include:

Basic Science

- Development and validation of perfusate derived biomarkers of renal and hepatic graft dysfunction.

Translational Science

- Development and validation of surrogate markers for long-term outcomes in kidney and liver allografts.
- Studies to determine the effects of ice-free cryopreservation on protective immunity in allogeneic tissue for transplantation.
- Adherence monitoring to help define predictors of chronic rejection, cancer and infections after transplant, including epigenetic influences in determining transplant outcomes.
- Development of patient point of care assays for remote monitoring and measurement of immunosuppressant drug levels and key biomarkers of patient health.

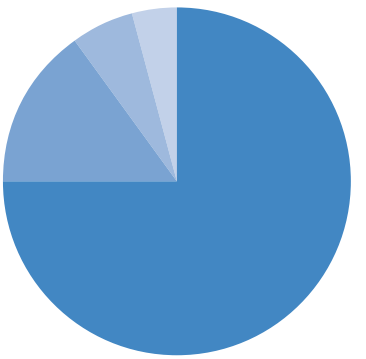
Clinical Science

- Reducing post-transplant complications in renal and liver allografts.
- Optimising organ utilisation by improving organ viability through machine perfusion based interventions in the pre-transplant period including ex vivo conditioning.
- Improving the post-transplant patient experience and clinician support thereof, by addressing the challenges of therapy adherence.

Solutions

We are a market-leading provider of preservation solutions used in transplantation. With anticipated regulatory clearance for our SPS-1 UW preservation solution expected in China and EU in the second half of 2014, we look forward to continued growth from our solutions products in 2014.

Revenue by geography (US$m)



- North America: US$24.3m
- Rest of World: US$4.9m
- Brazil: US$1.9m
- China: US$1.3m

> “The strong second half trading in 2013 has provided the business with solid momentum going into the new financial year.”

59
US-issued patents

102
International-issued patents

Intellectual Property

During the period 50 new patents were issued covering LifePort organ preservation and related technology, along with our cell and tissue preservation innovations. The Company's IP portfolio now includes 59 US issued and 39 US pending patents, and 102 international issued and 113 international pending patent applications. The strategic planning and management of our intellectual property portfolio is a key initiative of the Company, aimed to strengthen its market leadership with IP as a competitive barrier to market entry.

Outlook

The strong second half trading in 2013 has provided the business with solid momentum going into the new financial year. Geographic expansion will remain a key initiative of the Company. Adoption of our LifePort products in Brazil and China has continued in the first quarter of the year and we expect that regulatory approval in China will drive further advancements in 2014.

Our confidence in delivering continued growth in 2014 has been strengthened by the award of a major national tender to supply LifePort Kidney Transporters and related products to 23 renal transplant programmes in France. This is the first national tender award in the EU for the Company and provides a solid platform for driving sales in one of Europe's largest national markets for kidney transplantations.

Supported by strategic inventory build during second half of 2013, we entered 2014 well prepared for continued sales growth.

Our pipeline of product introductions will also allow us to address new areas of clinical need and to provide technology that will bring additional benefits to both kidney and liver transplantation. Key milestones targeted for new and existing products include US and EU regulatory approvals for our LifePort Liver Transporter, EU regulatory renewal for SPS-1, and broad regulatory clearances in China.

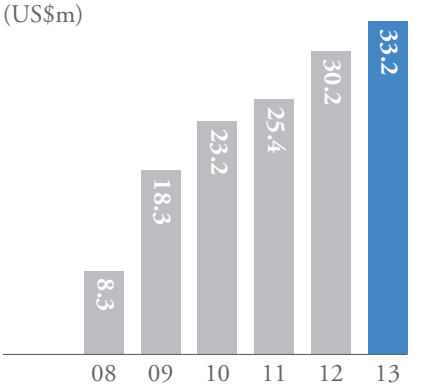
I am optimistic about the prospects of our business for 2014, both in terms of potential for delivering continued growth in operating profits and shareholder return, and in offering meaningful technology innovations in support of surgeons worldwide in their daily mission to bring life-saving transplants to thousands of patients suffering from end-stage organ disease.

I would like to thank my colleagues for their constancy and hard work, as well as our shareholders and customers for their support over the course of 2013. We are encouraged by positive momentum starting the new year, and look forward to another solid performance in 2014 for Lifeline Scientific.

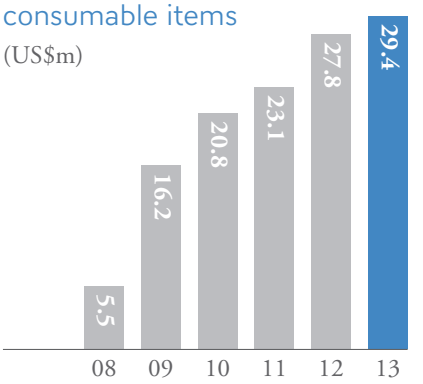
David Kravitz
Chief Executive Officer

Financial highlights

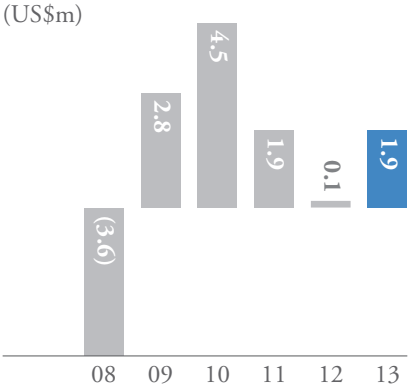
Revenue
(US$m)



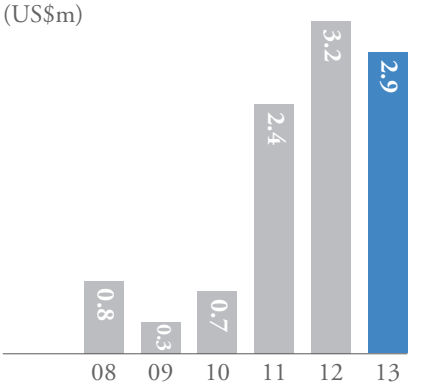
Revenue from single-use consumable items
(US$m)



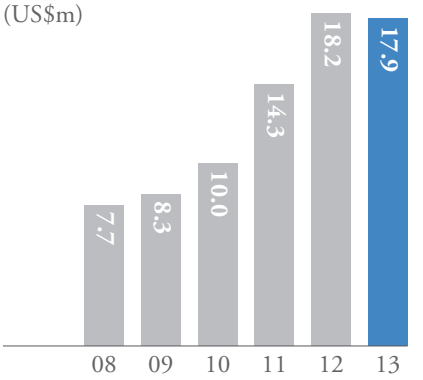
Operating income/(loss)
(US$m)



Research and development
(US$m)

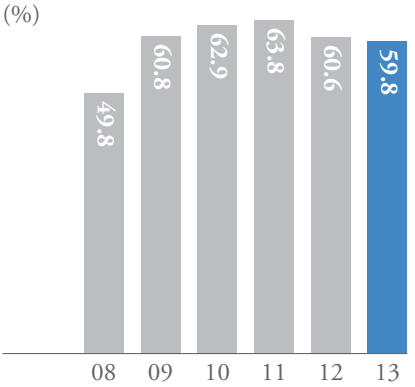


Operating expenses*
(US$m)

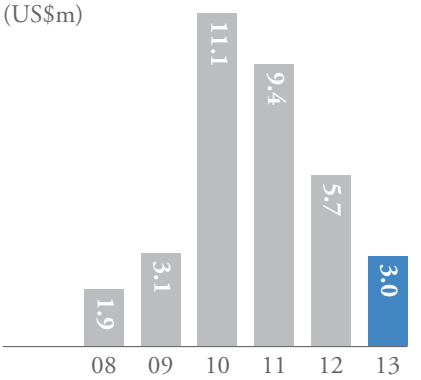


* Including research and development

Gross margin
(%)



Cash
(US$m)



Risks and uncertainties

Competition

There is a competitive market for the Company's products; on occasion this places pressure on sales prices and margins. The Company monitors the functionality and price of products offered by competitors and, if necessary, adjusts prices accordingly.

Employees

The Company's performance depends largely on key staff. The resignation of key individuals and the inability to recruit people with the right skills could adversely impact the Company's results. To mitigate these issues the Company provides a stock option and restricted stock plan, and remuneration packages designed to retain key individuals.

Technological change

Research and development to advance technology is ongoing throughout the Company's markets and the Company seeks to be part of this effort. It monitors and participates in industry standard-setting activities and is seen as a technological thought leader while regularly monitoring the activities of its competitors and investing in product development and innovation.

Financial risk management

Price and credit control risk

The Senior Management of the Company has set prices for its products. The majority of the Company's customers offer it low credit risk. The Company regularly monitors credit limits and outstanding balances.

Liquidity and cash flow risk

The Company monitors its cash position on a daily basis and maintains ongoing cash forecasts and working capital analyses. The Company's annual budgets include a cash flow. These documents are all reviewed regularly by the Directors.

The Company does not use derivative financial instruments to hedge exposures to cash flow or market risks.

Foreign currency risk

Since the Company receives a portion of its revenues in Euros and other foreign currencies, foreign currency risk represents a financial risk arising from its operations.

Treasury management

The Company invests its cash balances, which are mainly held in US dollars, for appropriate periods with institutions which have high credit ratings. However, at times, cash balances of the Company exceed federally insured limits in the US. The Company monitors interest rates and investment rates, and makes treasury management decisions in line with ongoing cash needs and the preservation of capital.

Environmental risk

The Company's policy is to ensure that it fully understands and manages the actual and potential environmental impact of its activities. Its operations are conducted in a way designed to comply with the legal environmental requirements in all areas of its business.

Board of Directors

John Garcia

Chairman, Independent Non-executive Director

Mr Garcia was appointed to the Board of the Company in September 2007. With a 25-year career in the health products industry, he has been instrumental in the development and growth of several medical products and services companies. He served for more than ten years as President of Sulzermedica's US$300 million pacemaker business before it was acquired by Guidant in 1998. He also held sales and marketing management positions with FHP (a California HMO), Bio Science (a national reference lab) and Pharmaseal (a division of American Hospital Supply Corporation).

Klaas de Boer

Non-executive Director

Mr de Boer was appointed to the Board of the Company in September 2008. He has been operating at the intersection of technology, innovation and entrepreneurship in the US, Europe and Israel for the past 15 years. His career started with McKinsey & Company in Amsterdam in 1991. In 1997 he left consulting to set up a corporate venturing team for a former client, Baan Investment (later Vanenburg Group). Subsequently, he spent several years as an independent (angel) investor, adviser and interim manager in a range of entrepreneurial companies. In 2006 he joined the Entrepreneurs Fund, which he restructured, repositioned and now leads in his capacity as Managing Partner. Mr de Boer sits on the boards of several other life sciences and medical technology companies.

Dr Andrew Clark

Senior Independent Non-executive Director

Dr Clark was appointed to the Board of the Company in September 2007. He received his PhD in Neuroscience from St Andrew's University and was a post-doctoral research fellow in pharmacology at the University of Oxford. He worked in London as a biotech analyst at Baring Securities. In 1995 he co-founded Reabourne Ltd, an investment management business, which focused on small capitalisation technology and biotechnology companies, where he acted as portfolio manager. He left Reabourne in 2003, following the sale of the business, and currently works as a consultant in the biotechnology field. He has held a number of non-executive directorships of life science and investment companies.

David Kravitz

Executive Director, Chief Executive Officer

Mr Kravitz, founder of the Company, has led the Group since its inception in 1998. He is co-inventor of the Group's key proprietary technologies and patents, and is co-author of early machine preservation-related scientific review papers and presentations. Prior to starting Lifeline Scientific, Mr Kravitz held senior executive, directorship and advisory roles in consulting and operating companies within the life sciences and other industries.

Dr Steven Mayer

Non-executive Director

Dr Mayer was appointed to the Board of the Company in 2003. A Doctor of Medicine and holder of a chemical engineering degree, he has a career of more than 20 years in diagnostics, devices and pharmaceuticals. He held several positions at Abbott Laboratories, including director in the Abbott Diagnostics Division and Pharmaceutical Products Division, and gained experience in many areas including basic research and development, manufacturing, strategic planning, economics and outcomes research. Dr Mayer currently has advisory and scientific consultant roles at various medical companies.

Eric Swenden

Non-executive Director

Mr Swenden was appointed to the Board of the Company in 2003. He has had a long and successful career in finance and company management having held positions on the boards of a broad array of public and private companies, including several drug companies, Vandemoortele Food Group and General Bank (Belgium's largest bank before its merger with Fortis).

Report of the Directors

The Directors present their report and accounts as of and for the year ended 31 December 2013.

Principal activities

During the course of the year the principal activity of the Company continued to be global sales of the LifePort Kidney Transporter, related disposables and consumables and the development of future medical devices and related products.

Review of the business

A review of the business and future developments is included in the Chairman's Statement, on page 9, and Chief Executive's Review, on pages 11 to 15.

Results and dividends

The consolidated post-tax profit for the year ended 31 December 2013 amounted to US$2,856,541 (2012: US($210,844 loss)). The Directors do not recommend the payment of a dividend.

Issue of shares

During the year ended 31 December, 2013, the Company issued 21,761 new common shares at 39p pursuant to the exercise of options. No common shares were issued during the year ended 31 December 2012.

Directors and directors' interests

The Directors of the Company, who served during the year ended 31 December 2013, were as follows:

John Garcia, Chairman, Independent Non-executive Director, appointed in 2007
David Kravitz, Executive Director, Chief Executive Officer, appointed in 1998
Andrew Clark, Senior Independent Non-executive Director, appointed in 2007
Klaas de Boer, Non-executive Director, appointed in 2008
Steven Mayer, Non-executive Director, appointed in 2003
Eric Swenden, Non-executive Director, appointed in 2003

The Directors' interests in the share capital of the Company are set out in the Remuneration Report.

Statement of Directors' responsibilities for the Annual Report

The Directors are responsible for preparing the Annual Report and the consolidated financial statements in accordance with applicable laws and regulations.

The Company has elected to prepare the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (US GAAP).

The consolidated financial statements provide a true and fair view of the state of affairs of the Company and of the profit of the Company for that period. In preparing these consolidated financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent; and
- State whether applicable US GAAP has been followed subject to any material departures disclosed and explained in the consolidated financial statements.

Report of the Directors (continued)

The Directors are responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the corporate and financial information on the Company's website. Legislation in the US governing the preparation and dissemination of the consolidated financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

Substantial shareholdings

At the close of business on 31 December 2013 the Company was aware of the following material interests (including Directors' interests which are shown in the Remuneration Report) of 3% or more of its common share capital (19,446,720 shares):

	Number of common shares	Percentage of issued share capital
Entrepreneurs Fund	**3,041,885**	**15.6%**
Koramic Finance Company NV	**1,963,000**	**10.1%**
DHAM NV[(1)]	**1,579,457**	**8.1%**
Abingworth LLP[(2)]	**1,500,000**	**7.7%**
Eric Swenden	**1,406,305**	**7.2%**
Ashcourt Rowan Asset Management Ltd.[(3)]	**1,231,000**	**6.3%**
BlackRock Investment Management (UK) Limited	**1,073,740**	**5.5%**
Legal & General Assurance Society Limited	**1,018,368**	**5.2%**
Codan Trust Company Limited and Peter A. Pearman[(4)]	**750,000**	**3.9%**

(1) Previously held in the name of Stonefund NV
(2) Abingworth shares are held in two funds: Abingworth Bioventures V LP (930,000) and Abingworth BioEquities Master Fund LP (570,000)
(3) Held on behalf of discretionary investment clients. Previously held by Generali Portfolio Management
(4) Trustees of a Trust of which William Salomon is a life tenant

Disclosure of Information to Auditors

At the date of writing this report, each of the Company's Directors, as set out on page 18, confirms that:

- So far as each Director is aware, there is no relevant information needed by the Company's independent auditors in connection with the preparation of their report of which the Company's independent auditors are unaware; and
- Each Director has taken all the required steps that he ought to have taken as a Director in order to make himself aware of any relevant information needed by the Company's independent auditors in connection with the preparation of their report and to establish that the Company's independent auditors are aware of that information.

Auditors

The Directors have determined to reappoint Crowe Horwath LLP (Crowe) as the Company's independent auditors as of and for the year ended 31 December 2013.

John Garcia
Chairman
4 April, 2014

Remuneration report

Directors' remuneration

Details of Directors' remuneration are set out in Note 16 to the consolidated financial statements.

Directors' interests

The interests of the Directors, both beneficial and non-beneficial, and persons connected with the Directors, in the common shares are as follows:

	31 December 2013
Andrew Clark	**129,997**
John Garcia	**50,000**
David Kravitz	**20,000**
Steven Mayer[(1)]	**249,027**
Eric Swenden	**1,406,305**

(1) The holdings above for Dr Mayer include 149,009 shares held by a retirement plan in which Dr Mayer has a controlling interest

The following table represents outstanding stock options that were granted to Directors (or their connected persons) under the stock and restricted stock option plan, or otherwise:

Options granted before AIM admission

Name	Expiration	Exercise price US Dollars $	Share options
David Kravitz[(1)]	**2015**	**12,500**	**33**
Steven Mayer[(1)]	**2015**	**12,500**	**1**

(1) Resulting from one for 5,000 share consolidation completed immediately before admission to AIM. All share options are fully vested.

Remuneration report (continued)

Directors' interests (continued)

Options granted after AIM admission

Name	Expiration	Exercise price GBP £	Share options	Vested share options
David Kravitz	2019	0.39	550,000	550,000
	2021	2.13	250,000(2)	125,000
	2023	1.90	85,000(1)	—
John Garcia	2018	1.50	100,000	100,000
	2021	2.13	15,000(2)	7,500
	2023	1.90	1,750(1)	—
Andrew Clark	2018	1.50	50,000	50,000
	2021	2.13	15,000(2)	7,500
	2023	1.90	1,500(1)	—
Klaas de Boer	2021	2.13	15,000(2)	7,500
	2023	1.90	10,000(1)	—
Steven Mayer	2018	1.50	50,000	50,000
	2021	2.13	15,000(2)	7,500
	2023	1.90	1,500(1)	—
Eric Swenden	2018	1.50	50,000	50,000
	2021	2.13	15,000(2)	7,500
	2023	1.90	1,500(1)	—

Note, all options above have a ten year life from date of grant and vest 25% per year, over four years
(1) These options were issued on 3 May 2013
No options were granted for Directors for the year ended 31 December 2012.
(2) These options were issued on 16 June 2011.

Transactions with Directors

Details of contracts with related parties are set out in Note 17 to the consolidated financial statements.

John Garcia
Remuneration Committee Chairman
4 April, 2014

Report on corporate governance

Policy statement

The Board's aim is to achieve a high standard of corporate governance. As an AIM traded company, full compliance with the UK Corporate Governance Code is not a formal obligation. Notwithstanding this exemption, the Company has sought to adopt the provisions of the UK Corporate Governance Code that are appropriate to its size and organisation, and to establish frameworks for the achievement of this objective.

The Board of Directors

The Board comprises one Executive and five Non-executive Directors. The Board meets at least quarterly. Board papers including detailed management accounts are circulated in advance of meetings, and Board and committee meeting minutes are kept in accordance with customary practices. The Board considers the current state of the business, strategic matters, business development policy, expenditures on major capital items, annual operating budgets, management structure and internal control procedures.

The roles of the Non-executive Chairman and Chief Executive Officer are separate.

John Garcia and Andrew Clark are considered by the Board to be independent Non-executive Directors. While the UK Corporate Governance Code considers the holding of stock options by a director as a factor which may mitigate against such director's independence, the Board continues to regard Mr Garcia and Mr Clark as independent. Under US federal law, the fact that a director holds options does not prevent that director from being considered independent.

Klaas de Boer has an interest in Entrepreneurs Fund LP as a special limited partner (carry partner). Entrepreneur's Fund held a material interest in the Company at 31 December 2013 and 2012.

Non-executive Directors have access to all information and, if required, external advice at the expense of the Company.

Appointments to the Board

The Board is responsible for selecting suitable candidates to hold office as Director. Non-executive Directors are required to retire by rotation in accordance with the Company's by-laws, and reappointment is subject to confirmation by shareholders at the Annual General Meeting. Given its size, the Board does not consider it necessary to establish a Nominations Committee.

Remuneration Committee

The Remuneration Committee is comprised of John Garcia (Chairman), Steven Mayer and Eric Swenden. The Remuneration Committee is responsible for determining or making recommendations to the Board with respect to the proper compensation of Directors in connection with their service to the Company, the remuneration and terms of employment of executive officers and employees of the Company and the grant of stock options, restricted stock and other incentive compensation arrangements to Directors, executive officers and employees of the Company.

Audit Committee

The Audit Committee comprises Andrew Clark (Chairman), John Garcia and Eric Swenden. The Audit Committee is responsible for assisting the Board in overseeing the integrity of the Company's financial reports, the Company's compliance with legal and regulatory requirements, the qualifications, independence and performance of the Company's independent auditors and the effectiveness of the Company's internal control systems.

Report on corporate governance (continued)

Internal control and risk management

The Board is responsible for maintaining an appropriate system of internal control to provide reasonable assurance of the quality and reliability of financial information used to direct the business, safeguard assets and recognise liabilities in accordance with company law and US GAAP. The Company has developed detailed budgets and monthly management reporting of actual results against budgets, and analyses variances in performance. Regular re-forecasting and projection of results are carried out during the year as required.

Investor relations

Management has put in place procedures to enable a regular dialogue with institutional investors and analysts, particularly in relation to interim and full-year consolidated financial statements. All shareholders receive the annual report which, together with interim consolidated financial statements, and notifications, is available on the Company's website. The Board welcomes as many investors as possible to the Annual General Meeting and invites discussion on issues facing the Company.

By order of the Board.

John Garcia
Chairman
4 April, 2014

Independent auditor's report

Board of Directors
Lifeline Scientific, Inc.
Itasca, Illinois

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Lifeline Scientific, Inc., which comprise the consolidated balance sheets as of 31 December 2013 and 2012, and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lifeline Scientific, Inc. as of 31 December 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Crowe Horwath LLP
Oak Brook, Illinois
4 April, 2014

Consolidated balance sheets

31 December 2013 and 2012

	2013 US$	2012 US$
CURRENT ASSETS		
Cash and cash equivalents	**3,022,140**	5,746,406
Receivables		
Customers (Net of allowance for doubtful accounts of US$0 and US$2,693 as of 31 December 2013 and 2012, respectively)	**8,156,638**	5,444,416
Employees	**4,283**	1,014
Grant	**55,884**	67,752
Inventories	**5,341,207**	4,409,579
Deferred tax assets	**97,472**	16,285
Prepaid expenses, deposits, and other	**1,128,148**	1,066,717
Total current assets	**17,805,772**	**16,752,169**
NON-CURRENT ASSETS		
Property and equipment (Net of accumulated depreciation and amortisation)	**2,807,084**	2,501,349
Intangibles (Net of accumulated amortisation)	**3,615,149**	2,812,820
Deferred tax assets	**1,942,213**	1,023,400
Goodwill	**64,710**	64,710
Other	**256,102**	123,805
Total non-current assets	**8,685,258**	**6,526,084**
Total Assets	**26,491,030**	**23,278,253**

Consolidated balance sheets (continued)

31 December 2013 and 2012

	2013 US$	2012 US$
CURRENT LIABILITIES		
Accounts payable	**2,124,571**	2,438,654
Long-term debt due within one year	**434,834**	181,568
Capital lease obligations due within one year	**9,914**	26,316
Accrued expenses		
Interest due within one year	**148,462**	—
Salaries and other compensation	**969,079**	1,149,918
Other	**1,399,397**	502,412
Income taxes payable	**162,340**	103,043
Deferred rent	**74,669**	44,989
Deferred revenue	**78,122**	307,148
Total current liabilities	**5,401,388**	**4,754,048**
NON-CURRENT LIABILITIES		
Long-term debt (Net of portion included in current liabilities)	**801,310**	1,189,336
Deferred rent (Net of portion included in current liabilities)	**348,512**	271,399
Accrued interest (Net of portion included in current liabilities)	**197,239**	330,380
Capital leases (Net of portion included in current liabilities)	**57,383**	2,625
Total non-current liabilities	**1,404,444**	**1,793,740**
Total liabilities	**6,805,832**	**6,547,788**
LIFELINE SCIENTIFIC, INC. STOCKHOLDERS' EQUITY		
Common stock, US$0.01 par value; authorised – 30,000,000 shares as of 31 December 2013 and 2012; issued and outstanding 19,446,720 and 19,424,959 shares as of 31 December 2013 and 2012, respectively	**194,467**	194,249
Additional paid-in capital	**94,326,509**	94,045,479
Other accumulated comprehensive loss	**(253,710)**	(250,283)
Accumulated deficit	**(73,502,632)**	(76,359,173)
Total Lifeline Scientific, Inc. stockholders' equity	**20,764,634**	**17,630,272**
Non-controlling interest	**(1,079,436)**	(899,807)
Total stockholders' equity	**19,685,198**	**16,730,465**
Total liabilities and stockholders' equity	**26,491,030**	**23,278,253**

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated statements of operations

Years ended 31 December 2013 and 2012

	2013 US$	2012 US$
Revenue		
Product sales and service fee revenue	**32,367,008**	29,130,623
Grant revenue	**866,305**	1,021,220
Total revenue	**33,233,313**	**30,151,843**
Cost of revenue	**13,370,078**	**11,870,438**
Gross profit	**19,863,235**	**18,281,405**
Operating expense		
Research and development	**2,930,128**	3,173,614
Selling, general, and administrative	**14,903,551**	14,785,706
Loss from disposals of property and equipment	**503**	52,623
Loss from abandonment of patents	**86,433**	142,015
Total operating expense	**17,920,615**	**18,153,958**
Income from operations	**1,942,620**	**127,447**
Other expense (income)		
Interest expense	**93,993**	85,725
Interest income	**(5,731)**	(4,177)
Total other expense	**88,262**	**81,548**
Income before income taxes	**1,854,358**	**45,899**
Income tax (benefit) expense	**(822,554)**	**509,583**
Net income (loss)	**2,676,912**	**(463,684)**
Less: net loss attributable to non-controlling interest	**179,629**	**252,840**
Net income (loss) attributable to Lifeline Scientific, Inc.	**2,856,541**	**(210,844)**
Basic earnings (loss) per share	**0.15**	**(0.01)**
Diluted earnings (loss) per share	**0.14**	**(0.01)**
Basic weighted average shares outstanding (in shares)	**19,434,558**	**19,424,959**
Diluted weighted average shares outstanding (in shares)	**20,104,983**	**19,424,959**

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated statements of comprehensive income (loss)

Years ended 31 December 2013 and 2012

	2013 US$	2012 US$
Net income (loss)	**2,676,912**	**(463,684)**
Foreign currency translation	**(3,427)**	**5,748**
Comprehensive income (loss)	**2,673,485**	**(457,936)**
Comprehensive loss attributable to non-controlling interest	**(179,629)**	**(252,840)**
Comprehensive income (loss) attributable to Lifeline Scientific, Inc.	**2,853,114**	**(205,096)**

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated statements of changes in stockholders' equity

Years ended 31 December 2013 and 2012

		Lifeline Scientific, Inc. Stockholders					
	Total US$	Shares	Par amount US$	Additional paid-in capital US$	Other accumulated comprehensive loss US$	Accumulated deficit US$	Non-controlling interest US$
Balance, 1 January 2012	**16,929,903**	**19,424,959**	**194,249**	**93,786,981**	**(256,031)**	**(76,148,329)**	**(646,967)**
Stock-based compensation	258,498	—	—	258,498	—	—	—
Foreign currency translation	5,748	—	—	—	5,748	—	—
Net loss	(463,684)	—	—	—	—	(210,844)	(252,840)
Balance, 31 December 2012	**16,730,465**	**19,424,959**	**194,249**	**94,045,479**	**(250,283)**	**(76,359,173)**	**(899,807)**
Issuance of common stock in conjunction with cashless option exercise	—	21,761	218	(218)	—	—	—
Stock-based compensation	281,248	—	—	281,248	—	—	—
Foreign currency translation	(3,427)	—	—	—	(3,427)	—	—
Net income	2,676,912	—	—	—	—	2,856,541	(179,629)
Balance, 31 December 2013	**19,685,198**	**19,446,720**	**194,467**	**94,326,509**	**(253,710)**	**(73,502,632)**	**(1,079,436)**

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated statements of cash flows

Years ended 31 December 2013 and 2012

	2013 US$	2012 US$
Cash flows from operating activities		
Net income (loss)	**2,676,912**	**(463,684)**
Adjustments to reconcile net income (loss) to net cash used in operating activities		
Depreciation	**743,821**	569,661
Amortisation	**201,862**	87,079
Stock-based compensation	**281,248**	258,498
Loss on disposals of property and equipment	**503**	52,623
Loss on abandonment of patents	**86,433**	142,015
Deferred income taxes	**(1,000,000)**	—
(Increase) decrease in		
Receivables	**(2,640,047)**	(1,542,288)
Inventories	**(917,787)**	(2,535,208)
Prepaid expenses, deposits, and other	**(459,819)**	(44,486)
Other assets	**(168,413)**	149,853
Increase (decrease) in		
Accounts payable	**(215,081)**	1,148,439
Accrued expenses	**1,072,463**	233,245
Accrued interest	**55,621**	71,556
Deferred revenue	**(201,196)**	262,539
Deferred rent	**106,172**	138,330
Total adjustments	**(3,054,220)**	**(1,008,144)**
Net cash used in operating activities	**(377,308)**	**(1,471,828)**
Cash flows from investing activities		
Payments related to intangible assets and legal fees associated with patent filings	**(1,090,624)**	(811,001)
Capital expenditures	**(1,045,626)**	(1,685,848)
Net cash used in investing activities	**(2,136,250)**	**(2,496,849)**
Cash flows from financing activities		
Repayments under capital lease obligations, net	**(18,425)**	(34,095)
Borrowings of long-term debt	**—**	525,000
Principal payments on long-term debt	**(178,750)**	(139,788)
Net cash (used in) provided by financing activities	**(197,175)**	**351,117**
Effect of foreign currency exchange rate changes on cash	**(13,533)**	**11,486**
Net decrease in cash and cash equivalents	**(2,724,266)**	**(3,606,074)**
Cash and cash equivalents, beginning of year	**5,746,406**	**9,352,480**
Cash and cash equivalents, end of year	**3,022,140**	**5,746,406**

The accompanying notes are an integral part of the consolidated financial statements.

Notes to consolidated financial statements

Years ended 31 December 2013 and 2012

Note 1 – Industry operations

Lifeline Scientific, Inc. (the "Company") is a US corporation whose common shares trade publicly on the AIM Market on the London Stock Exchange (AIM:LSI.c and LSI.s). The Company is in the business of delivering, to targeted medical markets, a portfolio of related proprietary technologies, which include devices, solutions, and protocols designed to maximise the use and availability of organs, tissues, and cells. The Company serves the kidney transplant market today with its LifePort product line, and also sells solutions to service the broader organ transplant industry. All sales are generated from US manufacturing. A majority of the Company's sales are in North America and 98.02% of the Company's long-lived assets are within the US. A LifePort liver product line is planned for a commercial launch during either the year ending 31 December 2014 or the year ending 31 December 2015, and other organ-related products are in development. The Company views itself as operating as one segment.

Note 2 – Summary of significant accounting policies

Principles of Consolidation

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

ORS Europe, NV *
Cell and Tissue Systems, Inc.**
Organ Recovery Systems, Inc.*
ORS Representacoes do Brasil LTDA*

* A wholly-owned subsidiary
** 49.00% owned

Intercompany balances and transactions have been eliminated in consolidation.

The Consolidation Topic of accounting principles generally accepted in the US ("US GAAP") requires consolidation by the primary beneficiary where the variable interest entity does not have sufficient equity at risk to finance its activities without additional subordinated financial support from other parties. The application of this guidance resulted in the consolidation of Cell and Tissue Systems, Inc. ("CTS"), which was created during the year ended 31 December 2005 and was deemed to be a variable interest entity. CTS was primarily formed to meet regulatory requirements in order to enhance its ability and capacity to apply for funding from available government sources. All grant revenue reported in the consolidated statements of operations is related to CTS, and this constitutes all of CTS' revenue. The Company contributed US$490 for the 49.00% ownership needed to form the variable interest entity. CTS has an accumulated deficit as of 31 December 2013 and 2012.

In accordance with the requirements of the accounting standard under US GAAP that establishes accounting and reporting standards for non-controlling interests in a subsidiary in consolidated financial statements, the Company classifies the non-controlling interest of CTS within the equity section of the consolidated balance sheets and separately reports the amounts attributable to controlling and non-controlling interests in the consolidated statements of operations for all periods presented.

Cash and Cash Equivalents

The Company considers all money market accounts and short-term investments with an original maturity of three months or less and US Treasury money markets to be cash equivalents. The majority of cash and cash equivalents as of 31 December 2013 and 2012 were held through a single financial institution, and the balances held at times exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

Note 2 – Summary of significant accounting policies (continued)

Receivables

Receivables are carried at original invoice or closing statement amount less estimates made for doubtful receivables. Management of the Company determines the allowance for doubtful accounts by reviewing and identifying troubled accounts on a monthly basis and by using historical experience applied to an aging of accounts. In general, a receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 90 days past its terms. The Company does not charge interest on past due receivables. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

Inventories

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

Depreciation and Amortisation

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

	Years
Computer equipment	3-5
Furniture and fixtures	5-7
Equipment under capital lease	5-7
Laboratory equipment	3-7
Leasehold improvements	5-8
Tooling and moulds	1-15
Vehicles	5

Long-Lived Assets

Long-lived assets to be held are reviewed for events or changes in circumstances that indicate that their carrying value may not be recoverable. The Company periodically reviews the carrying value of long-lived assets to determine whether or not an impairment to such value has occurred. Management of the Company believes that no impairment of long-lived assets exists as of 31 December 2013 and 2012.

Intangibles

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

	Years
Certification marks	20
Patents	17
License agreement	10

Professional and regulatory fees associated with obtaining the licenses that enable the Company to sell its products (i.e. certification marks) are capitalised and amortised over the shorter of the useful lives of the related licenses or twenty years. Legal fees associated with filings for patents that are pending are capitalised if management of the Company believes that it is probable that such patent applications will be successful. Patent costs are not amortised until the patent is obtained. During the year ended 31 December 2010, the Company signed an agreement that allows for the licensing of technology to support the Company's product development efforts. The agreement is being amortised over the remaining estimated life of the licensed technology, or ten years.

Notes to consolidated financial statements (continued)

Years ended 31 December 2013 and 2012

Note 2 – Summary of significant accounting policies (continued)

Goodwill

Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. In accordance with accounting for goodwill under US GAAP, goodwill is not amortised, but instead tested for impairment on an annual basis. The Company has applied Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2011-08, "Testing Goodwill for Impairment," in connection with the performance of the annual goodwill impairment test. Under ASU 2011-08, entities are provided with the option of first performing a qualitative assessment on none, some, or all of its reporting units to determine whether further quantitative impairment testing is necessary. An entity may also bypass the qualitative assessment for any reporting unit in any period and proceed directly to the quantitative impairment test. Goodwill must be tested on an annual basis or if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. During the years ended 31 December 2013 and 2012, the Company was not required to record any impairments to the carrying value of goodwill.

Deferred Rent

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

Fair Value of Financial Instruments

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

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

The carrying values of cash and cash equivalents, accounts receivable, and accounts payable approximates their fair values because of the short-term nature of these instruments. The carrying value of long-term debt approximates its fair values as the stated interest rates approximate current market interest rates of long-term debt with similar terms.

Note 2 – Summary of significant accounting policies (continued)

Product Warranty

Estimated future costs applicable to products sold under warranty are charged to expense in the year of sale, and the related liability is classified as current and have been included in other accrued expenses. A summary of the account activity for the warranty accrual is as follows during the years ended 31 December 2013 and 2012.

	2013 US$	2012 US$
Accrued warranty, beginning of year	**80,338**	72,283
Provision for warranty	**296,786**	289,502
Warranty claims	**(240,335)**	(281,447)
Accrued warranty, end of year	**136,789**	80,338

Revenue Recognition

Product sales revenue is recognised upon shipment of product to the client. Service fee revenue is recognised when services are performed. Deferred and unbilled revenue is recognised in the consolidated balance sheets.

Grant revenue is recognised when earned. Grant revenues are deemed earned to the extent of the total allowable expenditures incurred, which are specified in the grant contract. In some cases, a portion of the grant revenue is paid at the time the grant is initiated. These advances are deferred and recognised using the proportional performance model. Unbilled services are at times recorded for revenue recognised to date and relate to amounts that are currently unbillable to the client pursuant to contractual terms.

The Company sells extended warranties on its LifePort product for a specific period of months. This revenue is deferred and recognised over the term of the warranties on a straight-line basis.

Shipping and Handling Costs

Shipping and handling costs billed to customers of US$178,778 and US$148,709 are netted with expense and have been included in cost of sales on the consolidated statements of operations during the years ended 31 December 2013 and 2012, respectively.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of property and equipment, bad debts, intangibles, and accrued expenses for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. The carrying value of the Company's deferred tax assets is dependent upon its ability to generate sufficient taxable income in the future. The Company has established a valuation allowance against its net deferred tax assets to reflect the uncertainty of realising the deferred tax benefits, given past historical losses and a limited history of significant earnings. A valuation allowance is required when it is more likely than not that all or a portion of a deferred tax asset will not be realised. The Company is subject to US federal, state, and local taxes as well as foreign taxes in Belgium and Brazil. During the year ended 31 December 2013, US$1,000,000 of the valuation allowance was reversed to reflect the likelihood of future taxable income, which will most likely result in the utilisation of a portion of the Company's net operating loss carryforwards.

Notes to consolidated financial statements (continued)

Years ended 31 December 2013 and 2012

Note 2 – Summary of significant accounting policies (continued)

The Company's consolidated financial statements provide for any related US tax liabilities on earnings of foreign subsidiaries that may be repatriated, aside from qualifying undistributed earnings of certain foreign subsidiaries that are intended to be indefinitely reinvested in operations outside of the US.

The Company accounts for unrecognised tax benefits in accordance with US GAAP, which prescribes a more likely than not threshold for consolidated financial statement presentation and measurement of a tax position taken or expected to be taken in a tax return. A tax position is recognised as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognised is the largest amount of tax benefit that is greater than 50.00% likely of being realised on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

Stock Options

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

Management Estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The estimates included by the Company in these consolidated financial statements relate to warranty reserves, the allowance for doubtful accounts, the useful lives of patents, the useful lives of depreciable property and equipment, and the valuation allowance for deferred tax assets.

Research and Development

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

Foreign Currency Translation

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

Subsequent Events

The Company has evaluated subsequent events through 4 April 2014, the date the consolidated financial statements were available to be issued. No reportable subsequent events occurred through 4 April 2014.

Note 2 – Summary of significant accounting policies (continued)

Contingencies

During the twelve months ended 31 December 2013, the Company settled a dispute with a third party. Under the settlement, the Company is owed US$1,000,000, payable through April 2015. The Company has recognised the settlement amount as a reduction to selling, general, and administrative expenses in the consolidated statements of operations. As of 31 December 2013, the Company has received payments of US$391,301 related to this matter and the third party is current with the settlement payment terms.

In addition to the aforementioned matter, from time to time, the Company may experience litigation arising in the ordinary course of business. These claims are evaluated for possible exposure by management of the Company and their legal counsel. The Company believes that the ultimate resolution of any such matters will not have a material adverse effect on its consolidated financial position.

Reclassification

Certain amounts as of 31 December 2012 and for the year then ended have been reclassified to conform to the presentation as of 31 December 2013 and for the year then ended. These reclassifications had no effect on net loss or stockholders' equity.

Note 3 – Concentrations

As of 31 December 2013, two vendors accounted for 27.06% and 12.95% of accounts payable, respectively. As of 31 December 2012, three vendors accounted for 17.25%, 15.28%, and 10.57% of accounts payable, respectively. During the year ended 31 December 2013, two vendors accounted for 12.73% and 12.31% of purchases. During the year ended 31 December 2012, one vendor accounted for 11.00% of purchases.

As of 31 December 2013, two customers accounted for 15.11% and 12.87% of accounts receivable, respectively.

The Company receives the majority of its grant revenue under several grant contracts from the National Institutes of Health. During the years ended 31 December 2013 and 2012, the Company earned US$761,902 and US$879,014, respectively. The receivable balances from the National Institutes of Health were US$44,705 and US$48,567 as of 31 December 2013 and 2012, respectively.

Note 4 – Inventories

	2013 US$	2012 US$
Medical devices, parts, and solutions	**4,476,897**	3,595,863
Raw materials	**864,310**	813,716
	5,341,207	4,409,579

Notes to consolidated financial statements (continued)

Years ended 31 December 2013 and 2012

Note 5 – Property and equipment

	2013 US$	2012 US$
Property and equipment in progress	**534,147**	342,883
Computer equipment	**396,170**	354,918
Furniture and fixtures	**832,233**	565,941
Equipment under capital lease	**82,348**	136,651
Laboratory equipment	**2,158,311**	1,804,262
Leasehold improvements	**1,151,934**	1,048,216
Tooling and moulds	**883,776**	834,145
Vehicles	**225,129**	158,709
	6,264,048	5,245,725
Accumulated depreciation and amortisation	**(3,456,964)**	(2,744,376)
	2,807,084	2,501,349

During the years ended 31 December 2013 and 2012, the Company recognised depreciation expense of US$743,821 and US$569,661, respectively.

Note 6 – Intangibles

Intangible assets consist of the following:

	2013 US$	2012 US$
License agreement	**141,931**	141,931
Certification mark fees	**396,128**	—
Patents issued	**1,855,400**	1,548,289
Patents pending	**2,080,978**	1,789,490
	4,474,437	3,479,710
Less: Accumulated amortisation	**(859,288)**	(666,890)
	3,615,149	2,812,820

During the years ended 31 December 2013 and 2012, the Company abandoned patents issued and patents pending with an original cost of US$95,897 and US$142,015, respectively.

During the years ended 31 December 2013 and 2012, the Company recognised amortisation expense of US$201,862 and US$87,079, respectively.

Note 6 – Intangibles (continued)

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

Year ending 31 December	US$
2014	221,169
2015	290,813
2016	290,157
2017	289,696
2018	273,776
Thereafter	2,249,538
	3,615,149

Note 7 – Financing agreements

During August 2009, the Company entered into a two-year working capital line of credit agreement with Silicon Valley Bank ("SVB") to support potential future cash needs of the Company. This line of credit agreement, and amendments executed in 2010 through 2013, currently provide for a revolving line of credit not to exceed an aggregate principal amount of US$3,000,000, limited to qualifying receivables as defined, and grants a security interest in and lien upon all of the assets of Lifeline Scientific, Inc. and Organ Recovery Systems, Inc. in favour of SVB. The maturity of the line of credit agreement is 21 September 2014. The outstanding principal under the revolving line of credit accrued interest at an annual rate of 1.25% above the prime rate (3.25% as of 31 December 2013). In addition, a US$750,000, 36 month term loan at a 5.50% unsecured or a 2.75% secured rate was made available to the Company. During the year ended 31 December 2012, the Company drew upon this term loan in the amount of US$525,000 (at a secured rate of 2.75%) to support the Company's growth plans. The financing agreements contain financial covenants which required the Company to maintain minimum adjusted quick ratio levels (as defined) at 31 December 2012 and a required minimum tangible net worth (as defined) at 31 December 2013. The Company was in compliance with its covenant as of 31 December 2013. As of 31 December 2013 and 2012, there were no amounts outstanding on the line of credit and the outstanding balance on the term loan was US$218,750 and US$393,750, respectively.

Notes to consolidated financial statements (continued)

Years ended 31 December 2013 and 2012

Note 8 – Long-term debt

	2013 US$	2012 US$
Construction loan payable to the Company's landlord, payable in 60 monthly installments of US$711, interest to be charged at 6.00% and payments due in March 2010 through March 2015; unsecured.	**10,122**	13,873
Subordinated loan payable by ORS Europe, NV to IWT; at the option of ORS Europe, NV, principal and interest payable quarterly on an installment basis of €60,822 beginning May 2014 through February 2017; interest charged at an annual rate of 8.43%. Debt subordinated to the intercompany payable to Lifeline Scientific, Inc.	**1,007,271**	963,281
Term loan payable to SVB, payable in 36 monthly installments of US$14,583 plus interest charged at secured annual rate of 2.75%; payments due 1 April, 2012 through 1 March, 2015; secured by cash collateral account at SVB in an amount corresponding to current loan balance.	**218,750**	393,750
Capital lease obligations, payable in monthly installments, including interest at various annual rates, payments due April 2011 through September 2018; secured by the underlying equipment.	**67,298**	28,941
Long-term debt, net	**1,303,441**	1,399,845
Less current maturities	**(444,748)**	(207,884)
	858,693	1,191,961

Maturities on long-term debt other than capital leases are as follows as of 31 December 2013:

Year ending 31 December	US$
2014	434,834
2015	381,613
2016	335,757
2017	83,940
Total minimum payments required	1,236,144

The following is a schedule by year of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of 31 December 2013:

Year ending 31 December	US$
2014	21,353
2015	21,548
2016	20,949
2017	37,392
2018	2,841
Total minimum payments required	104,083
Less amounts representing estimated executory costs	(22,558)
Less amount representing interest	(14,228)
Present value of net minimum lease payments	67,297

Assets held under capital lease as of 31 December 2013 and 2012 had a cost of US$82,348 and US$136,651, respectively, and accumulated depreciation of US$10,964 and US$61,601, respectively.

Note 9 – Income taxes

Income tax (benefit) expense consists of the following components for the years ended 31 December 2013 and 2012:

	2013 US$	2012 US$
Current		
Federal	**23,826**	60,908
Foreign	**63,234**	128,160
State	**90,386**	320,515
	177,446	509,583
Deferred		
Federal	**564,521**	21,682
State	**82,188**	3,156
	646,709	24,838
Valuation allowance	**(1,646,709)**	(24,838)
Total income taxes	**(822,554)**	509,583

A reconciliation of income tax (benefit) expense, with amounts determined by applying the statutory US federal income tax rate to income before income taxes is as follows for the years ended 31 December 2013 and 2012:

	2013 US$	2012 US$
Computed income tax expense at federal statutory rate	**538,131**	15,606
State and local income taxes (benefit), net of federal benefit	**78,346**	(228)
Permanent items	**219,618**	125,433
Changes in prior year estimates	**(111,769)**	156,159
Other state taxes	**—**	61,653
Valuation allowance	**(1,646,709)**	(24,838)
Unrecognised tax benefits	**24,000**	94,000
Foreign tax expense (benefit)	**39,234**	(12,298)
Other	**36,595**	94,096
Income tax (benefit) expense	**(822,554)**	509,583
Effective income (benefit) tax rate	**-44.36%**	1,110.23%

Notes to consolidated financial statements (continued)

Years ended 31 December 2013 and 2012

Note 9 – Income taxes (continued)

The net deferred tax assets in the accompanying consolidated balance sheets include the following components as of 31 December 2013 and 2012:

	2013 US$	2012 US$
Deferred tax liabilities		
Property and equipment	**(20,364)**	(42,136)
Intangible assets	**(1,366,639)**	(991,004)
	(1,387,003)	(1,033,140)
Deferred tax assets		
Stock compensation expense	**349,863**	268,025
Accrued expenses	**361,542**	221,672
Net operating loss carryforwards	**20,633,700**	21,231,419
Inventories	**678,119**	594,224
Deferred rent	**122,503**	123,233
Research and development and other credit carryforwards	**543,062**	543,062
	22,688,789	22,981,635
Net deferred tax assets	**21,301,786**	21,948,495
Valuation allowance	**(19,262,101)**	(20,908,810)
Net deferred tax assets	**2,039,685**	1,039,685

The income tax (benefit) expense differs from the federal statutory tax rate generally as a result of changes in the valuation allowance, permanent differences such as meals and entertainment expenses, state income taxes, foreign income taxes, and the amending of a state income tax return during the year ended 31 December 2012. A valuation allowance has been provided to reduce the deferred tax assets to the amount that is more likely than not to be realised.

The Company has federal net operating loss carryforwards totalling US$57,712,000 as of 31 December 2013, which may be used to offset future taxable income. If not used, the carryforwards will expire in future years as follows:

Year	US$
2022	2,366,000
2023	7,720,000
2024	6,412,000
2025	11,136,000
2026	12,197,000
2027	14,131,000
2028	3,750,000
Total loss carryforwards	57,712,000

Note 9 – Income taxes (continued)

As a result of changes in ownership at the IPO date, the Company estimates there will be future limitations on the utilisation of operating loss carryforwards pursuant to Internal Revenue Code Section 382. Any unused annual loss limitation carries forward to future year. The annual limitation on loss carryforwards that could be utilised is approximately US$5,600,000 through the year ended 31 December 2013 and US$2,600,000 after the year ended 31 December 2013. The cumulative unused loss limitation which carried into the year ended 31 December 2013 was approximately US$16,402,000.

The Company files tax returns in the US federal and various state jurisdictions, along with Belgium and Brazil foreign tax jurisdictions. The Company's tax years extending back to the year ended 31 December 2009 remain open to examination for both federal and state jurisdictions. The Company's policy is to recognise interest and penalties related to uncertain tax positions as a component of income tax expense. A summary of the activity related to unrecognised tax benefits is as follows during the years ended 31 December 2013 and 2012:

	2013 US$	2012 US$
Liability for unrecognised tax benefits, beginning of year	**94,000**	—
Lapse of applicable statutes of limitations	**(30,000)**	—
Accrued interest and penalties	**54,000**	94,000
Liability for unrecognised tax benefits, end of year	**118,000**	94,000

The Company does not expect the total amount of unrecognised tax benefits to significantly change during the next 12 months.

Cash payments for income taxes were US$106,000 and US$208,000 during the years ended 31 December 2013 and 2012, respectively.

Note 10 – Common stock

In accordance with its third amended and restated certificate of incorporation dated 20 December 2007, the total number of shares the Company is authorised to issue is 30,000,000, all of which is designated as common stock with US$0.01 par value. Each share of common stock entitles the holder to one vote on each matter submitted to a vote of the stockholders of the Company. The holders of the common stock shall be entitled to receive dividends when, and if, declared by the Board of Directors of the Company.

Note 11 – Stock options

In December 2007, the Company approved a Second Amended and Restated Stock Option and Restricted Stock Plan (the "2007 Plan"). As of 31 December 2013 and 2012, the 2007 Plan reserves 2,333,606 and 2,330,995 shares of common stock respectively for grant (or 12.00% of the issued and outstanding common stock). The 2007 Plan permits granting of awards of restricted stock. Options granted may include nonqualified options as well as incentive stock options. The 2007 Plan is currently administered by the Board of Directors of the Company.

The 2007 Plan gives broad power to the Board of Directors of the Company to administer and interpret the 2007 Plan, including the authority to select the individuals to be granted options and restricted stock, and to prescribe the particular form and conditions of each option or restricted stock granted. The 2007 Plan shall continue in effect for a term of 10 years unless terminated sooner under provisions of the 2007 Plan. It is the Company's policy to issue new stock certificates to satisfy stock option exercises.

During the years ended 31 December 2013 and 2012, the Company granted 219,000 and 38,000 nonqualified stock options, respectively, to employees and directors of the Company. The options were granted at the fair market value of the common stock on the date of the grant, have a 10-year contractual term, and vest over four years.

Notes to consolidated financial statements (continued)

Years ended 31 December 2013 and 2012

Note 11 – Stock options (continued)

A summary of option activity under the 2007 Plan as of 31 December 2013 and 2012, and the changes during the years ended 31 December 2013 and 2012 is as follows:

	Number of shares	Weighted-average exercise price (£)	Weighted-average remaining contractual term	Aggregate intrinsic value (£)
Outstanding as of 1 January 2012	1,937,340	1.18	7.89	1,368,782
Granted	38,000	1.39		
Forfeitures	(5,500)	1.89		
Expirations	(11,500)	0.58		
Outstanding as of 31 December 2012	1,958,340	1.18	6.95	1,071,045
Granted	219,000	1.90		
Exercised	(30,000)	0.39		
Forfeitures	(3,075)	2.07		
Expirations	(2,625)	0.80		
Outstanding as of 31 December 2013	2,141,640	1.27	6.30	1,150,005
Vested or expected to vest as of 31 December 2013	2,121,967	1.26	6.28	1,149,756
Options exercisable as of 31 December 2013	1,557,590	1.00	5.58	1,143,022

A summary of the Company's nonvested options under the 2007 Plan as of 31 December 2013 and 2012 and changes during the years ended 31 December 2013 and 2012 is presented as follows:

	Shares	Weighted-average grant-date fair value (£)
Nonvested options as of 1 January 2012	826,000	0.78
Granted	38,000	0.48
Vested	(274,875)	0.73
Forfeitures	(5,500)	0.75
Nonvested options as of 31 December 2012	583,625	0.78
Granted	219,000	0.66
Vested	(215,500)	0.74
Forfeitures	(3,075)	0.57
Nonvested options as of 31 December 2013	584,050	0.75

Note 11 – Stock options (continued)

The following is a summary of the Company's stock options outstanding and stock options exercisable under the 2007 Plan as of 31 December 2013:

		Options Outstanding		Options Exercisable	
	Exercise prices (£)	Options outstanding	Weighted-average exercise price (£)	Options exercisable	Weighted-average exercise price (£)
	0.39-0.72	903,840	0.42	903,840	0.42
	1.15-1.50	313,000	1.46	284,500	1.47
	1.70-2.33	924,800	2.03	369,250	2.05
Total		2,141,640	1.27	1,557,590	1.00

The Company recognised compensation expense of US$281,248 and US$258,498 during the years ended 31 December 2013 and 2012, respectively. As of 31 December 2013, there was approximately US$530,686 of total unrecognised compensation cost related to nonvested share-based compensation arrangements granted under the 2007 Plan. That cost is expected to be recognised over a weighted-average period of 1.08 years.

30,000 options were exercised during the year ended 31 December 2013 at a weighted average price of £0.39. As a result of utilising a cashless exercise option, 21,761 shares were issued related to these options. No options were exercised during the year ended 31 December 2012.

Fair value was estimated as of the grant date based on a Black-Scholes option pricing model using the following weighted average assumptions during the years ended 31 December 2013 and 2012:

	2013	2012
Risk-free interest rate	**0.91%**	0.88%
Expected volatility rate	**33.73%**	34.13%
Dividend yield	**0.0%**	0.0%
Expected life	**6.2**	6.1
Fair value per share on grant date	**£0.66**	£0.48

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

Note 12 – Operating leases

The Company conducts its operations in facilities leased under a number of operating leases. Rent expense under these agreements amounted to US$492,444 and US$512,878 during the years ended 31 December 2013 and 2012, respectively.

The following is a schedule by year of future minimum lease payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of 31 December 2013:

Year ending 31 December	US$
2014	533,447
2015	474,272
2016	513,197
2017	450,827
2018	209,917
Total minimum payments required	2,181,660

Notes to consolidated financial statements (continued)

Years ended 31 December 2013 and 2012

Note 13 – Earnings per share

Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share include the dilutive effect of stock options and warrants, using the treasury stock method. The following table sets forth the computation of basic and diluted earnings per share for the years ended 31 December 2013 and 2012:

	2013	2012
Net income available (loss applicable) to common stock shareholders	**US$2,856,541**	US$(210,844)
Weighted average shares outstanding for basic earnings per share	**19,434,558**	19,424,959
Dilutive effect of stock options	**670,425**	—
Weighted average shares outstanding for diluted earnings (loss) per share	**20,104,983**	19,424,959
Basic earnings (loss) per share	**US$0.15**	US$(0.01)
Diluted earnings (loss) per share	**US$0.14**	US$(0.01)

Diluted loss per share is the same as basic loss per share because the effects of potentially dilutive securities are anti-dilutive.

Note 14 – Employee benefit plan

The Company sponsors a limited employer matching 401(k) plan for all employees of the Company. The plan provides for contributions in such amounts as determined by the Board of Directors of the Company, and the employer match is discretionary. Contributions of US$86,573 and US$65,969 were made during the years ended 31 December 2013 and 2012, respectively.

Note 15 – Other cash flow information

Cash payments of interest were US$95,841 and US$15,567 during the years ended 31 December 2013 and 2012, respectively.

During the year ended 31 December 2013, the Company acquired a vehicle and office equipment via leases considered to be capital leases. The capital lease obligation for these assets was US$77,558.

See Notes 9 and 11 for additional noncash transactions.

Note 16 – Board remuneration

During the years ended 31 December 2013 and 2012, the Company's Board of Directors earned remuneration for their activities as directors. In addition, David Kravitz's remuneration reflects his role as Chief Executive Officer of the Company. Compensation amounts are as follows:

	2013 US$	2012 US$
David Kravitz	**642,980**	587,652
John Garcia	**85,000**	85,000
Eric Swenden	**42,500**	42,500
Andrew Clark	**42,500**	42,500
Klaas de Boer	**42,500**	42,500
Steven Mayer	**42,500**	42,500

In addition, David Kravitz received benefits in the form of health and life insurance coverage during the years ended 31 December 2013 and 2012 of $31,297 and $32,960, respectively. Directors did not receive any pension contributions from the Company during the years ended 31 December 2013 and 2012.

Note 17 – Related party transactions

During the year ended 31 December 2010, the Company entered into a consulting agreement with a company in which Steven Mayer, a member of the Company's Board of Directors, is a director. Mr. Mayer performs the consulting services. Fees for services rendered under the consulting agreement were US$120,000 and US$72,000 and have been included in selling, general, and administrative expenses in the consolidated statements of operations during the years ended 31 December 2013 and 31 December 2012, respectively.

Additionally, during the years ended 31 December 2013 and 2012, the Company did business with a company in which David Kravitz and Steven Mayer are directors and have an ownership interest. Fees for research and development related products and services rendered were US$324,500 and US$173,000 during the years ended 31 December 2013 and 2012, respectively. As of 31 December 2013 and 2012, the Company had assets of US$402,500 and US$177,500, respectively, included in prepaid expenses, deposits, and other and property and equipment in the consolidated balance sheets for products to be placed in service and services expected to be rendered during the following year.

Glossary of terms

Acute rejection – This occurs when the body's immune system recognises the transplanted organs, tissues or cells as foreign and begins to attack it. Most acute rejections occur within the first year of transplantation.

Allograft – Biological material intended for transplantation into another individual of the same species.

Asystolic donor – A non-heartbeating donor (see donation after cardiac death below).

Cadaveric donor – A brain dead individual whose organs are removed for transplantation.

CE mark – Declaration by the manufacturer that its product meets the requirement of the applicable European Directive.

Creatinine – Levels of creatinine, a protein produced by muscle and excreted in the urine, are used to determine kidney function.

Chronic allograft rejection – Rejection of the transplanted organ (allograft) that occurs some time after transplantation took place.

Donation after Cardiac Death (DCD) – An organ donor who has been declared dead because their heart and breathing have stopped.

Delayed Graft Function (DGF) – A delay in the recovery of renal function after a kidney transplant requiring use of dialysis in the first week post-transplantation.

Dialysis – A type of renal replacement therapy which is used to provide an artificial replacement for lost kidney function due to renal failure. Dialysis duplicates the kidney's functions by removing waste products from the blood and removing excess fluid in the form of urine.

Donor – An individual from whom living components, cells, tissues and organs for future transplantation is obtained. A deceased donor is a patient who has been declared dead using either brain death or cardiac death criteria. A living donor is one who donates an organ or segment of an organ for the intent of transplantation.

End-stage Renal Disease (ESRD) – Permanent loss of kidney function, for which patients need dialysis or a transplant.

Expanded Criteria Donor (ECD) – A kidney donated for transplantation from any brain dead donor over the age of 60 years; or from a donor over the age of 50 years with health conditions such as high blood pressure, stroke or elevated levels of a protein called creatinine, which were once considered unsuitable for transplantation.

Ex vivo – Outside the body.

Graft – The transplanted organ or tissue.

Hypothermic preservation – Cold temperature preservation of organs intended for transplantation, usually below 8°C.

Kidney preservation – The inhibition or reversal of deterioration of kidneys upon the death of the donor.

LifePort Kidney Transporter – A medical device designed to provide improved kidney preservation, evaluation and transport prior to transplantation. The LifePort provides a sealed, sterile, protected environment where a solution is gently pumped through the kidney at cold temperatures to minimise damage while the organ is outside the body. The LifePort is lightweight and portable allowing organs to be perfused from the time of recovery until transplantation. It can travel unaccompanied by land or air, safely transporting the kidneys across town or between countries. While the kidney is being perfused, the LifePort records data on temperature, flow rate, vascular resistance and pressure every 10 seconds, providing surgeons with additional data prior to transplantation. LifePort machine preservation has been proven to reduce delayed graft function (DGF) when compared with traditional static storage.[1]

Machine preservation – Preserves the organ by pumping a specifically designed solution (perfusate) through it while continuously monitoring the organ. Many retrospective clinical outcomes studies have shown that machine preservation improves the quality of a kidney from a cadaveric donor prior to transplantation in comparison to organs statically stored in a cool box.

Perfusate – A specially designed synthetic cold solution that is pumped through the organ during machine preservation.

Perfusion – The passage of a fluid (blood or other) through the vessels of organs or tissues. Deceased donor organs are perfused to keep them viable for transplantation.

Static storage – The traditional way of transporting organs for transplantation. Houses the organ in a plastic cup filled with a solution and surrounded by ice, which is then bagged and placed in a box. Although this provides relative ease of transport it cannot maintain the kidney for long periods, nor can it provide monitoring or evaluation of the kidney.

References

(1) Garfield, S.S., Poret, A.W., & Evans, R.W. (2009). **The cost-effectiveness of organ preservation methods in renal transplantation: US projections based on the machine preservation trial.** *Transplant. Proc.,* 41(9), 3531-3536.

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