

Akers Biosciences, Inc. and Subsidiaries

Financial Report
December 31, 2003

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McGladrey & Pullen

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and
Stockholders of Akers Biosciences, Inc.
Thorofare, New Jersey

We have audited the accompanying consolidated balance sheets of Akers Biosciences, Inc. and Subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, changes in stockholders' deficiency and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Akers Biosciences, Inc. and Subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 12 to the financial statements, the Company has had no significant operating results to date, has suffered recurring losses and is experiencing difficulty in generating sufficient cash to meet its obligations and sustain its operations, all of which raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

McGladrey & Pullen, LLP

Blue Bell, Pennsylvania
February 26, 2004

AKERS BIOSCIENCES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2003 AND 2002

ASSETS

	<u>2003</u>	<u>2002</u>
CURRENT ASSETS		
Cash	\$ 593,394	\$ 1,958
Trade receivables, net of allowance for doubtful accounts of \$154,747 and \$4,741 in 2003 and 2002, respectively	481,850	270,190
Inventories	450,151	200,762
Prepaid and other current assets	71,390	136,165
	<hr/>	<hr/>
Total current assets	1,596,785	609,075
	<hr/>	<hr/>
PROPERTY AND EQUIPMENT, net	270,857	366,917
	<hr/>	<hr/>
OTHER ASSETS		
Patent costs, net of accumulated amortization	132,242	146,553
Deferred financing costs, net of accumulated amortization	7,719	10,614
Deposits and other assets	10,767	10,767
	<hr/>	<hr/>
Total other assets	150,728	167,934
	<hr/>	<hr/>
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 2,018,370</u>	<u>\$ 1,143,926</u>

See Notes to Consolidated Financial Statements.

LIABILITIES AND STOCKHOLDERS' DEFICIENCY

	<u>2003</u>	<u>2002</u>
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 1,762,744	\$ 1,320,639
Accrued interest payable	114,746	80,986
Note payable, bank	500,000	-
Current portion of long-term debt	1,509,766	863,646
Current portion of obligations under capital leases	945	9,941
	<u>3,888,201</u>	<u>2,275,212</u>
LONG-TERM DEBT		
Long-term debt, net of current portion	517,478	538,126
Obligations under capital leases, net of current portion	-	903
	<u>517,478</u>	<u>539,029</u>
COMMITMENTS		
STOCKHOLDERS' DEFICIENCY		
Preferred stock, no par value		
Authorized 15,000,000 shares, no shares		
issued and outstanding		
at December 31, 2003 and 2002	-	-
Common stock, no par value		
Authorized 60,000,000 shares		
issued and outstanding 42,674,564 and 39,618,395 shares		
at December 31, 2003 and 2002	44,353,221	42,178,577
Accumulated deficiency	(46,740,530)	(43,848,892)
Total stockholders' deficiency	<u>(2,387,309)</u>	<u>(1,670,315)</u>
TOTAL LIABILITIES AND		
STOCKHOLDERS' DEFICIENCY	<u>\$ 2,018,370</u>	<u>\$ 1,143,926</u>

AKERS BIOSCIENCES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
Revenues	\$ 1,114,980	\$ 811,628
Cost of production	1,119,653	1,125,462
Gross profit/(loss)	(4,673)	(313,834)
Sales and general and administrative expenses	2,099,998	4,906,734
Research and development expenses	729,940	849,778
Total expenses	2,829,938	5,756,512
Loss from operations	(2,834,611)	(6,070,346)
Other income (expense)		
Interest income	97	10,975
Forgiveness of trade payables	4,253	327,469
Sale of New Jersey NOL's	224,259	242,396
Foreign currency transactions gain (loss)	(389)	74,335
Interest expense	(285,247)	(268,031)
Debt conversion expense	-	(1,332,559)
Total other income (expense)	(57,027)	(945,415)
Net loss	\$ (2,891,638)	\$ (7,015,761)

See Notes to Consolidated Financial Statements.

AKERS BIOSCIENCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIENCY

FOR THE YEAR ENDED DECEMBER 31, 2003 AND 2002

	Preferred Stock		Common Stock		Accumulated	Total
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Deficiency</u>	
Balance, December 31, 2001	-	-	32,219,627	30,807,934	(36,833,131)	(6,025,197)
Issuance of stock for cash	-	-	124,167	215,000	-	215,000
Net proceeds from IPO	-	-	2,525,000	3,818,068	-	3,818,068
Issuance of warrants for products and services	-	-	-	425,000	-	425,000
Exercise of options and warrants	-	-	132,500	165,000	-	165,000
Issuance of common stock in exchange of debt	-	-	2,994,202	5,111,996	-	5,111,996
Issuance of common stock in exchange of trade payables	-	-	209,326	325,579	-	325,579
Issuance of common stock in exchange for termination of warrants	-	-	1,413,573	1,310,000	-	1,310,000
Net loss for the year ended December 31, 2002	-	-	-	-	(7,015,761)	(7,015,761)
Balance, December 31, 2002	-	-	39,618,395	42,178,577	(43,848,892)	(1,670,315)
Issuance of stock for cash	-	-	2,708,531	1,814,630	-	1,814,630
Issuance of warrants for products and services	-	-	-	39,688	-	39,688
Exercise of options and warrants	-	-	80,156	60,117	-	60,117
Issuance of common stock in exchange of debt	-	-	75,000	75,000	-	75,000
Issuance of common stock in exchange of trade payables	-	-	192,482	185,209	-	185,209
Net loss for the year ended December 31, 2003	-	-	-	-	(2,891,638)	(2,891,638)
Balance, December 31, 2003	-	\$ -	42,674,564	\$ 44,353,221	\$ (46,740,530)	\$ (2,387,309)

See Notes to Consolidated Financial Statements.

AKERS BIOSCIENCES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
OPERATING ACTIVITIES		
Net loss	\$ (2,891,638)	\$ (7,015,761)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	110,371	146,851
Forgiveness of trade payables	-	(327,469)
Debt conversion costs	-	1,332,559
Amortization of deferred finance costs	2,895	4,443
Stock, stock options and warrants issued to employees and non-employees	39,688	1,735,000
Provisions for bad debt	154,748	-
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Trade receivables	(366,407)	(209,318)
Inventories	(249,389)	(15,831)
Prepays and other current assets	64,774	(118,884)
Deposits and other assets	-	(4,360)
Increase (decrease) in:		
Accounts payable and accrued expenses	661,074	249,321
Other current liabilities	-	(48,382)
Net cash used in operating activities	<u>(2,473,884)</u>	<u>(4,271,831)</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	-	(49,258)
Net cash used in investing activities	<u>-</u>	<u>(49,258)</u>
FINANCING ACTIVITIES		
Proceeds from issuance of stock, net	1,814,630	4,033,068
Proceeds from warrants exercised	60,117	165,000
Proceeds from borrowings	1,575,279	967,247
Repayments on officers' and stockholders' borrowings	(105,385)	-
Repayments of convertible debt	-	(400,000)
Repayments of capital lease obligations	(9,899)	(9,076)
Repayments on borrowings	(269,422)	(639,821)
Net cash provided by financing activities	<u>3,065,320</u>	<u>4,116,418</u>
INCREASE (DECREASE) IN CASH	591,436	(204,671)
CASH, BEGINNING OF YEAR	1,958	206,629
CASH, END OF YEAR	<u>\$ 593,394</u>	<u>\$ 1,958</u>

See Notes to Consolidated Financial Statements.

AKERS BIOSCIENCES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Continued)

YEARS ENDED DECEMBER 31, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Non-cash investing and financing activities are as follows:		
Conversion of debt and accrued interest payable to common stock	<u>\$ 75,000</u>	<u>\$ 5,111,996</u>
Conversion of trade payable to debt	<u>\$ -</u>	<u>\$ 143,000</u>
Conversion of trade payable to common stock	<u>\$ 185,209</u>	<u>\$ 325,579</u>
CASH PAID DURING THE PERIOD FOR INTEREST	<u>\$ 211,010</u>	<u>\$ 108,245</u>

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Summary of Significant Accounting Policies below and the other notes to the Consolidated Financial Statements on the following pages are integral parts of the accompanying Consolidated Financial Statements.

Description of Business

Akers Biosciences, Inc. and its subsidiaries (the "Company" or "Akers") is a New Jersey Corporation, which was incorporated on March 8, 1989. The Company commenced research and development operations in September 1989, and until 2003 had devoted substantially all its efforts to establish the new business.

The Company's financial statements issued in prior years include amounts and disclosures as required by generally accepted accounting principles in the United States of America as it relates to a Development Stage Company. Based on the current status of the Company, considering the development of products and sales activity, the Company is no longer deemed a Development Stage Company.

Patents and Trade Secrets

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

Principles of Consolidation

The consolidated financial statements include the accounts of the Company. All significant intercompany balances and transactions are eliminated. The subsidiaries have been inactive since December 31, 1996 and have no assets or liabilities.

Revenue Recognition

The Company recognizes sales at the time goods are shipped.

AKERS BIOSCIENCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Trade Receivables

Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Trade receivables are written off when deemed uncollectable. Recoveries of trade receivables previously written off are recorded when received. Trade receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 90 days. Management may elect to charge interest on past due trade receivables.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market, and primarily consist of raw materials used for research and development and manufacturing.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are computed over the estimated useful lives of the respective assets using straight-line and accelerated methods. Upon sale or retirement of assets, the related costs and accumulated depreciation are eliminated from the accounts and the resulting gain or loss is included in operations. Expenditures for repairs and maintenance that do not increase the useful lives of the assets are charged to operations as incurred.

Patent Costs

Costs associated with applying for patents are capitalized as patent costs. Once the patents are approved, the respective costs are amortized over a period of twelve to seventeen years on a straight-line basis. Patent pending costs for patents that are not approved are charged to operations the year the patent is rejected. Accumulated amortization related to patents was \$99,243 and \$84,931 as of December 31, 2003 and 2002, respectively. Amortization expense amounted to \$14,311 and \$3,483 for the years ended December 31, 2003 and 2002, respectively.

Deferred Financing Costs

Costs incurred in connection with long-term financing have been capitalized and are being amortized on the straight-line basis over the term of the related debt. As of December 31, 2003 and 2002, accumulated amortization was \$21,228 and \$18,333, respectively. Amortization expense for the years ended December 31, 2003 and 2002 was \$2,895 and \$4,443, respectively.

Research and Development Costs

Research and development costs are charged to operations when incurred.

AKERS BIOSCIENCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Advertising and Promotion

Advertising and promotion costs are charged to current operations when incurred. Advertising and promotion costs for the years ended December 31, 2003 and 2002 were \$1,210 and \$17,759, respectively.

Stock-Based Compensation

The Company adopted the disclosure-only provisions of Statement of Financial Accounting Standards ("SFAS") No. 123 "*Accounting for Stock-Based Compensation*," but elected to continue to utilize the "*intrinsic value*" method of accounting for recording stock-based compensation expense for employees, as provided for in Accounting Principles Board No. 25 "*Accounting for Stock Issued to Employees*" ("APB No. 25").

Income Taxes

Deferred income taxes are provided on a liability method. Whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Stock Options and Warrants

The Company's intention is to issue stock options and warrants at no less than fair market value on the date of grant. On infrequent occasions, stock options and warrants have been issued at less than fair market value for services and in connection with financings, and the effect of these issuances has been recorded as an expense in the period of issuance of the option or warrant. Previously, the fair market value of common stock had been determined based on the price that the Company has received for the issuance of stock to investors during a comparable time period. Since May 22, 2002, fair market value is deemed to be the price of the company's shares as quoted on the Alternative Investment Market of the London Stock Exchange.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

AKERS BIOSCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Reclassification

Certain items in the 2002 financial statements have been reclassified to conform with the 2003 financial statement presentation.

NOTE 2. CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to credit risk consist of cash and accounts receivable.

The Company's policy is to limit the amount of credit exposure to any one financial institution and place investments with financial institutions evaluated as being creditworthy, which are exposed to minimal interest rate and credit risk. From time to time the Company had bank deposits that exceeded federally insured limits. Concentration of credit risk, with respect to accounts receivable, is limited due to the Company's credit evaluation process. The Company does not require collateral from its customers. Historically, the Company has not incurred any significant credit related losses.

The Company derived over 90% of its sales from four customers during each of the years ended December 31, 2003 and 2002, respectively. For the year ended December 31, 2003, 99% of the net outstanding accounts receivables represented balances due from these four customers.

NOTE 3. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	Estimated Useful Lives in Years	<u>2003</u>	<u>2002</u>
Machinery and equipment	5 – 15	\$1,025,109	\$1,025,109
Office furniture and equipment	5 – 7	66,702	66,702
Leasehold improvements	6	89,900	89,900
Transportation equipment	3 – 5	3,850	3,850
Assets held under capital lease	5	<u>40,300</u>	<u>40,300</u>
		1,225,861	1,225,861
Less: accumulated depreciation and amortization		<u>955,004</u>	<u>858,944</u>
		<u>\$ 270,857</u>	<u>\$ 366,917</u>

Depreciation and amortization expense for the years ended December 31, 2003 and 2002 amounted to \$96,060 and \$143,367, respectively.

AKERS BIOSCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. CONVERTIBLE NOTES PAYABLE

During the year ended December 31, 2002, \$950,000 of convertible notes were converted into common stock at \$1.50 and \$1.75 per share. Since the conversion of \$950,000 of debt to common stock was at a lower conversion price per share than the original conversion rates, this transaction was deemed an induced debt conversion and a debt conversion expense of \$262,730 was recorded during 2002. Total debt conversion expense for 2002 totaled \$1,332,559, of which \$262,730 related to the conversion of notes payable, as noted above, and \$1,069,829 related to the conversion of notes payable due to shareholder that was converted to common stock during 2002.

NOTE 5. NOTE PAYABLE, BANK

On April 13, 2003, the Company entered into an asset based loan agreement with Commerce Bank, N.A. to provide up to \$1,000,000 in working capital against eligible Accounts Receivable and Inventory, with an interest rate at bank prime plus 2% (6% as of December 31, 2003). The loan is guaranteed by the President and CEO. The Company's outstanding balance on the note payable, bank totaled \$500,000 as of December 31, 2003. The facility was extended into June, 2004.

NOTE 6. SENIOR NOTES PAYABLE

On February 25, 1994, the Company entered into a note agreement with Milan Holding Company, Inc. ("Milan") whereby Milan provided \$1,000,000 in exchange for a Senior Secured Note ("Senior Note"). The Senior Note bears annual interest at 4% and is past due as of December 31, 2001.

Subsequent to August 30, 1995, Milan made additional advances to the Company totaling \$750,000, of which \$400,000 bore interest at 10% and \$350,000 bore interest at prime plus 1%. The notes were collateralized by a security interest in Patent No. 5,231,035, issued July 27, 1993, entitled: Latex Agglutination Assay.

During the year ended December 31, 2002, Milan converted its outstanding debt along with accrued interest to common stock. The debt was converted to common stock at a stock conversion price consistent with the stock's fair value.

AKERS BIOSCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7. DEBT OBLIGATIONS

	<u>2003</u>	<u>2002</u>
Note payable, Small Business Administration, due in monthly installments of \$5,094 including fixed interest of 7.77%. The loan is collateralized by a second lien on the Company's equipment, and is guaranteed by the Company's President and CEO. The loan is due September 2016.	\$493,709	\$ 513,793
Note payable, individual, unsecured, in connection with the Company's repurchase of preferred stock. This portion of the obligation is being amortized to the future payment of \$60,000, imputed at 6% and is due February 2009. The note was convertible into 75,000 shares of the Company's common stock and was converted in February 2004.	49,419	46,315
Note payable, finance company, initially due July 2004 with interest at 8% annually and secured by shares of the Company's common stock. The lender breached its agreement with the Company resulting in the Company's cancellation of the shares issued to the lender as collateral (see note 8 - Litigation)	652,174	-
Note payable, stockholder, unsecured, payable upon demand with interest at 4%.	100,000	100,000
Note payable, stockholder, unsecured including interest at prime plus 1.0% (5.0% at December 31, 2003), due on demand.	45,304	34,689
Notes payable, insurance premiums financed	-	68,975
Convertible notes payable, stockholders, interest at 18% annually, payable monthly. The principal amounts of the notes were due June 30, 2003 and subsequently extended to April 30, 2004. The notes were converted to the company's common stock in January 2004.	414,000	370,000
Notes payable, individuals, unsecured, due upon demand	140,000	125,000
Note payable, vendor, as payment for trade debt, payable in monthly installments of \$6,000 including interest at 7%, commencing March 1, 2003 through April 1, 2005	<u>132,638</u>	<u>143,000</u>
Total debt obligations	2,027,244	1,401,772
Less: current maturities	<u>1,509,766</u>	<u>863,646</u>
Long-term debt	<u>\$ 517,478</u>	<u>\$ 538,126</u>

AKERS BIOSCIENCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7. DEBT OBLIGATIONS (*Continued*)

Annual maturities on long-term debt are as follows:

<u>YEARS ENDING DECEMBER 31,</u>	<u>AMOUNT</u>
2004	\$1,509,766
2005	25,665
2006	27,731
2007	29,964
2008	32,378
Thereafter	<u>401,740</u>
	<u>\$2,027,244</u>

NOTE 8. COMMITMENTS

Capital Leases

The Company leases certain computer equipment with a cost of \$40,300 under a capital lease expiring in January 2004. The assets under capital leases are recorded at lower of the present value of the future minimum lease payments or the fair value of the assets.

Total minimum future obligations under capital leases is \$945 through 2004.

Amortization of \$4,642 and \$7,737 related to the assets under capital leases is included in depreciation and amortization expense in the accompanying financial statements for the years ended December 31, 2003 and 2002, respectively.

Interest expense related to capital lease obligations was \$1,509 and \$1,381 for the years ended December 31, 2003 and 2002, respectively. The obligation was satisfied in January 2004.

Operating Leases

The Company leases office space in Thorofare, New Jersey under a noncancellable-operating lease with annual rentals of \$141,000 plus common area maintenance (CAM) charges. The Company's lease term expires May 31, 2007.

AKERS BIOSCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8. COMMITMENTS (*Continued*)

In addition, the Company leases certain equipment under noncancellable operating leases, which expire at various dates through May 21, 2006. Minimum future rental payments under all noncancellable-operating equipment leases are as follows:

<u>YEARS ENDING DECEMBER 31,</u>	<u>AMOUNT</u>
2004	\$11,246
2005	7,849
2006	190
2007	<u>-</u>
Total	<u>\$19,285</u>

Rent expense for the years ended December 31, 2003 and 2002 was \$251,702 and \$224,436, respectively.

Employment Contracts

Certain officers of the Company have employment contracts in the normal course of business ranging from one to five years. Certain of these officers were also given options as part of their agreement. During 2003 and 2002, respectively, 0 and 160,000 options were granted at prices per share ranging from \$1.00 to \$2.00. The Company records compensation expense relating to options provided to employees in accordance with APB No. 25 (Note 1) in which the intrinsic value (fair market value less exercise price) is recorded to compensation expense.

Litigation

The Company commenced an action as plaintiff, which is currently in the United States District Court Southern District of Florida, against Tundra Management Ltd. ("Alliance") and Alliance Investment Management Ltd. based on a loan agreement which the Company owes \$652,174, but claims damages by reason of the breaches by the lender, Tundra, and its assignee with knowledge, Alliance, of approximately \$1,061,000. Defendant Alliance's counterclaim is for such damages 'as the court may assess'. Discovery has not yet been commenced in this action.

AKERS BIOSCIENCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. INCOME TAXES

The Company has deferred tax assets of approximately \$16,900,000 and \$14,800,000 as of December 31, 2003 and 2002, respectively, primarily related to net operating loss carryforwards, which have yet to be utilized. At December 31, 2003 and 2002, the Company established a 100% valuation allowance against the deferred tax assets as the likelihood of recognizing this benefit is not certain. The utilization of these losses to reduce future income taxes will depend upon the generation of sufficient taxable income prior to the expiration of the net operating loss carryforwards. In addition, based on ownership changes resulting from the private placements of stock, as well as historical issuances of common stock, the annual utilization of the otherwise available net operating loss carryforward may be limited by the provisions of Section 382 of the Internal Revenue Code, as amended.

The Company has Federal and state loss carryforwards available totaling \$39,600,000 and \$22,100,000, respectively. The loss carryforwards are available to offset future taxable income liabilities at December 31, 2003, that expire at various dates through the year 2020.

In each of the years ended December 31, 2003 and 2002, the Company sold New Jersey State operating loss carryforwards, which resulted in proceeds of \$224,259 and \$242,396, respectively.

NOTE 10. CAPITAL

During May 2002, the Company's shares of common stock were admitted to trading on the London Stock Exchange ("Alternative Investment Market"). The offering placed 2,525,000 shares at a price of \$2 (U.S. dollars) per share. Net proceeds, representing gross proceeds less stock offering costs, totaled \$3,818,068.

As noted in the statement of stockholders' deficiency, the Company issued certain warrants and shares of stock in lieu of cash payment for certain products and services received. These transactions were accounted in accordance with SFAS No. 123 "*Accounting for Stock-Based Compensation*". The basis of assigning value of the stock issued was the fair market value of the related products or services received.

The Company has been able to avail itself of a facility provided by a private equity agreement between the Company and Brittany Capital Management LTD ("Brittany"). The facility, established in July 2003, commits Brittany to purchase up to \$10 million of the Company's common stock over a term of 24 months. The timing and amounts of the purchases ("Puts") shall be at the discretion of the Company subject to certain conditions including, but not limited to, the admission to trading on the Alternative Investment Market of the shares purchased by Brittany in the case of each put. During the year ended December 31, 2003 the company sold 826,582 shares for net proceeds to the Company of \$550,000. Additionally, the Company sold 897,565 shares for net proceeds to the Company of \$1,150,000 in the subsequent period January 1, 2004 through May 24, 2004.

AKERS BIOSCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10. CAPITAL (*Continued*)

In November 2003, the Company completed a follow-on placing of 1,361,500 shares of common stock on the Alternative Investment Market of the London Stock Exchange. Net proceeds, representing gross proceeds less stock offering costs, totaled \$1,014,000.

Net loss per common share, calculated on the basic method (net loss divided by the weighted number of outstanding common shares), was \$0.07 and \$0.19 for the years ended December 31, 2003 and 2002, respectively.

NOTE 11. STOCK WARRANTS AND OPTIONS AND RELATED PARTY TRANSACTIONS

Stock Warrants

The Company has issued warrants to various employees and consultants of the Company for their services either in connection with the Company's ongoing efforts to raise capital or the development of the Company's products. Each warrant granted may be exchanged for a prescribed number of shares of common stock. The warrants expire at various dates through July 2010.

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>
Balance, December 31, 2001	6,179,154	1.27
Warrants Granted	1,133,750	1.85
Warrants Exercised	(32,500)	2.00
Warrants Expired/Terminated	<u>(3,721,073)</u>	<u>1.19</u>
Balance, December 31, 2002	3,559,331	1.55
Warrants Granted	401,156	1.16
Warrants Exercised	(80,156)	.75
Warrants Expired/Terminated	<u>(745,281)</u>	<u>1.91</u>
Balance, December 31, 2003	<u>3,135,050</u>	<u>1.43</u>

During March 2002, the Company induced certain warrant holders to convert their warrants to common stock, at a ratio less than 1 for 1. The Company waived the payment of the warrant exercise price ("cashless" transaction). A total of 2,572,415 warrants related to non-employees were converted into 758,573 shares of common stock. No compensation or inducement expense is required to be recorded related to non-employees.

During March 2002, the Company also converted 1,000,000 warrants held by two officers into 655,000 shares of common stock in a cashless exchange. Compensation expense, totaling \$1,310,000, was recorded representing 655,000 shares converted at a fair market value of \$2 per share for the year ended December 31, 2002.

AKERS BIOSCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11. STOCK WARRANTS AND OPTIONS AND RELATED PARTY TRANSACTIONS (*Continued*)

Stock Options

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

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

Qualified option holders may exercise their options at their discretion through various dates ending November 2013. Each option granted may be exchanged for a prescribed number of shares of common stock.

<u>Employee Plan – Qualified Options</u>	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>
Balance, December 31, 2001	2,061,415	\$ 1.19
Options Granted	250,000	1.90
Options Exercised	(22,500)	1.79
Options Expired/Terminated	<u>(159,000)</u>	<u>1.76</u>
Balance, December 31, 2002	2,129,915	\$ 1.06
Options Granted	225,000	1.47
Options Exercised	-	-
Options Expired/Terminated	<u>(2,000)</u>	<u>1.00</u>
Balance, December 31, 2003	<u>2,352,915</u>	<u>\$ 1.10</u>
<u>Directors’ Plan</u>	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>
Balance, December 31, 2001	299,500	\$ 1.47
Options Granted	275,000	2.00
Options Exercised	(28,000)	1.00
Options Expired/Terminated	<u>-</u>	<u>-</u>
Balance, December 31, 2002	546,500	\$ 1.75
Options Granted	495,000	1.74
Options Exercised	-	-
Options Expired/Terminated	<u>(70,000)</u>	<u>2.00</u>
Balance, December 31, 2003	<u>971,500</u>	<u>\$ 1.73</u>

AKERS BIOSCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11. STOCK WARRANTS AND OPTIONS AND RELATED PARTY TRANSACTIONS (Continued)

Stock Options (Continued)

Non-qualified option holders may exercise their options at their discretion through various dates ending December 2006. The Company has granted non-qualified options as follows:

<u>Non-Qualified Options</u>	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>
Balance, December 31, 2001	222,000	\$ 1.00
Options Granted	-	-
Options Exercised	(72,000)	1.00
Options Expired/Terminated	<u>-</u>	<u>-</u>
Balance, December 31, 2002	150,000	\$ 1.00
Options Granted	-	-
Options Exercised	-	-
Options Expired/Terminated	<u>-</u>	<u>-</u>
Balance, December 31, 2003	<u>150,000</u>	<u>\$ 1.00</u>

The following table summarizes information concerning outstanding exercisable warrants and options at December 31, 2003:

<u>Range of Exercise Prices</u>	<u>Options and Warrants Outstanding</u>			<u>Options and Warrants Exercisable</u>	
	<u>Number Outstanding</u>	<u>Weighted-Average Remaining Contractual Life</u>	<u>Weighted-Average Exercise Price</u>	<u>Number Exercisable</u>	<u>Weighted-Average Exercise Price</u>
\$ 0.10 - 0.99	1,090,000	4.94	\$ 0.69	1,034,000	\$ 0.69
1.00 - 1.49	3,293,200	4.14	1.01	3,293,200	1.01
1.50 - 1.99	700,000	1.57	1.50	700,000	1.50
2.00	<u>1,526,265</u>	5.58	2.00	<u>1,469,765</u>	2.00
	<u>6,609,465</u>			<u>6,496,965</u>	

Options and warrants exercisable at December 31, 2003 and 2002 were 6,496,965 and 6,007,764, respectively.

The weighted-average per share fair value of warrants and options on grant date was approximately \$0.25 and \$0.22 for 2003 and 2002, respectively.

AKERS BIOSCIENCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11. STOCK WARRANTS AND OPTIONS AND RELATED PARTY TRANSACTIONS (*Continued*)

With respect to stock options granted to employees, the Company has adopted the disclosure only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," but applies APB Opinion No. 25 "Accounting for Stock Issued to Employees" in accounting for its stock compensation plan. Accordingly, no compensation costs have been recognized with respect to stock options granted to employees, officers and directors in 2003 and 2002, except as related to new options granted to employees, officers and directors in 2002 as noted above. Additional compensation cost that would have been recognized in accordance with the basis of fair value pursuant to SFAS No. 123 that would have increased the Company's net loss for 2003 and 2002 would be minimal. The method of determining proforma compensation costs for 2003 and 2002 was based on certain assumptions, including expected volatility of 5%, a risk free interest rate between 5%-6%, expected life of options of 5 years and no expected payment of dividends.

With respect to stock options and warrants granted to non-employees, the Company records the appropriate expense as required by SFAS No. 123. During 2003 and 2002, the Company incurred approximately \$39,688 and \$-0-, respectively of expense as a result of issuing common stock to service providers some of which were issued below the Company's fair market value.

Stock Issued for Services

The Company values stock issued for services at its fair market value at the date of issuance.

NOTE 12. BUSINESS OPERATIONS

The Company has incurred substantial losses since its inception. While the Company has received several FDA approvals, the Company has not yet begun mass distribution of these products. Sales since inception have primarily been to several international customers. Accordingly, the Company has a limited operating history upon which an evaluation of its future performance and prospects can be made. The Company's plan of operation and prospects must be considered in light of the risks, expenses, difficulties and problems frequently encountered in the establishment of a new business. Additionally, the Company intends to market its products through corporate partnerships and a network of carefully selected international distributors. No assurance can be given that the Company will be able to develop a distribution network or successfully manage such distributors or that existing or future distributors will be able to sell the Company's products in a satisfactory manner or in sufficient quantities, or that its sales and marketing efforts will be successful.

The Company believes that it has available sources of financing to fully develop its technologies into commercially viable products and services. However, to the extent that funds generated from operations and existing capital resources are insufficient, the Company will have to raise additional funds. While there can be no assurance that future equity fundings or other sources of financing will be successful, the Company believes that the proceeds from future offerings will be sufficient to fund its operations and anticipated growth for at least the next 12 months following the report date. If adequate funds are not available, the Company may be required to curtail its operations.