

VÄSAMED, Inc.

Eden Prairie, Minnesota

September 30, 2007 and 2006

Financial Statements

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VÄSAMED, Inc.

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VÄSAMED, Inc.
Balance Sheets

	<u>September 30, 2007</u>	<u>December 31, 2006</u>
	(Unaudited)	(Audited)
Assets		
Current assets:		
Cash	\$ 1,452,656	\$ 405,603
Accounts receivable, net	367,662	89,308
Inventories	540,712	715,438
Prepaid expenses and other current assets	24,333	22,736
Total current assets	2,385,363	1,233,085
Property and equipment, net	232,229	295,168
Debt Issuance Costs, net of accumulated amortization of 0 and \$426,980	-	614,818
Patents, net of accumulated amortization of \$561,052 and \$510,942	384,833	375,244
Other assets	8,223	8,223
Total other assets	393,056	998,285
Total assets	\$ 3,010,648	\$ 2,526,538
Liabilities and shareholders' deficit		
Current liabilities:		
Current portion of long-term debt	\$ -	\$ 3,016,000
Advances from shareholder	-	400,000
Amounts payable to shareholders for financing costs	-	618,640
Accounts payable	195,184	216,758
Employee compensation	157,272	247,879
Accrued royalties	100,000	100,000
Other liabilities and accrued expenses	35,220	55,169
Accrued interest payable	-	277,509
Obligation under capital lease, current portion	7,111	6,556
Total current liabilities	494,787	4,938,511
Convertible notes payable, net of unamortized discount of 0 and \$745,520 and current portion of long-term debt of 0 and \$3,016,000	-	766,481
Obligations under capital lease, less current portion	13,527	18,937
Total long-term liabilities	13,527	785,418
Convertible preferred stock, par value \$0.01 per share; Authorized shares – 5,000,000		
Issued and outstanding shares –		
Series A – 4,333,334; liquidation preference \$1,500,000		
Series B – 236,934; liquidation preference \$3,554,010		
Series C – 56,730 and 103,910; liquidation preference \$5,105,700 and \$9,351,000		
Series D – 55,559 and 0; liquidation preference \$5,000,310 and 0	46,825	46,742
Additional paid-in capital	15,113,195	14,359,168
Total preferred stock	15,160,020	14,405,910
Shareholders' deficit:		
Common stock, par value \$0.01 per share; Authorized shares – 30,000,000		
Issued and outstanding shares 3,855,057, outstanding shares not issued 4,156,400 and 0	80,115	38,551
Additional paid-in capital	90,570,369	81,220,141
Accumulated deficit	(103,308,170)	(98,861,993)
Total shareholders' deficit	(12,657,686)	(17,603,301)
Total liabilities and shareholders' deficit	\$ 3,010,648	\$ 2,526,538

See accompanying notes

VÄSAMED, Inc.
Statements of Operations

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenues:				
Sales	\$ 734,933	\$ 513,127	\$ 2,569,666	\$1,433,175
Costs and expenses:				
Cost of goods sold	406,870	357,338	1,381,974	1,169,366
Research and development expenses	456,749	440,233	1,440,599	1,306,790
Selling, general and administrative expenses	880,649	950,672	2,401,655	2,615,035
Total costs and expenses	1,744,268	1,748,243	5,224,228	5,091,191
Operating loss	(1,009,335)	(1,235,116)	(2,654,562)	(3,658,016)
Interest income (expense), net	(629,054)	(480,290)	(1,785,254)	(969,773)
Other income (expense), net	(1,035)	(933)	(6,361)	(4,512)
	(630,089)	(481,223)	(1,791,615)	(974,285)
Net loss	(1,639,424)	(1,716,339)	(4,446,177)	(4,632,301)
Imputed preferred stock dividends	-	-	-	(101,114)
Loss attributable to common shareholders	\$ (1,639,424)	\$ (1,716,339)	\$ (4,446,177)	\$ (4,733,415)

See accompanying notes

VÄSAMED, Inc.
Statements of Cash Flows

	Nine Months Ended	
	September 30,	
	2007	2006
Operating activities		
Net loss	\$ (4,446,177)	\$ (4,632,301)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization		
Depreciation and amortization	136,514	132,185
Change in allowance for doubtful accounts	-	(44,000)
Loss on the disposal of property plant and equipment	1,821	16,413
Non-cash compensation expense on stock options	78,868	153,682
Imputed interest on advances from shareholder	59,788	29,576
Amortization of original issue discount on notes payable	631,304	518,337
Amortization of debt issuance costs	745,518	263,346
Changes in operating assets and liabilities net of acquisitions:		
Accounts receivable	(278,354)	200,306
Inventories	174,726	(254,186)
Prepaid expenses, other current assets and other assets	(1,597)	2,101
Accounts payable and accrued expenses	217,391	60,233
Net cash used in operating activities	(2,680,198)	(3,554,308)
Investing activities		
Purchases of property and equipment, net	(25,286)	(152,124)
Proceeds from the sale of property and equipment	-	1,330
Payments for patents	(59,698)	(68,856)
Net cash used in investing activities	(84,984)	(219,650)
Financing activities		
Proceeds from issuance of convertible notes payable	500,000	3,993,000
Advances from shareholder	1,547,000	300,000
Net proceeds from sale of series D preferred stock	1,770,090	-
Net proceeds from exercise of common stock options	-	101,443
Proceeds for capital lease obligations	-	7,351
Payment on capital lease obligations	(4,855)	(3,750)
Net cash provided by financing activities	3,812,235	4,398,044
Increase in cash	1,047,053	624,086
Cash at beginning of period	405,603	1,328
Cash at end of period	\$ 1,452,656	\$ 625,414

VÄSAMED, Inc.
Statements of Cash Flows

Nine Months Ended
September 30,
2007 2006

Non-cash investing and financing activity:

Conversion of amounts payable to shareholder for financing costs into convertible notes payable	\$ 635,130	\$ -
Conversion of convertible notes payable and accrued interest into preferred stock	\$ 6,291,423	\$ -
Conversion of interest on advances to preferred stock	\$ 98,765	\$ -
Conversion of preferred stock into common stock	\$ 9,351,900	\$ -
Conversion of advances from shareholder into preferred stock	\$ 1,947,000	\$ 350,000
Conversion of advance from shareholder into convertible notes	\$ -	\$ 100,000
Recording of debt issuance costs for convertible notes payable		
Additional paid-in capital	\$ -	\$ 402,709
Amounts payable to shareholder for financing costs	-	549,090
Total Debt Issuance Costs	\$ -	\$ 951,799

See accompanying notes

VÄSAMED, Inc.

**Notes to Financial Statements
(Unaudited)**

September 30, 2007

Note A – Summary of Significant Accounting Policies

Basis of Presentation:

The accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The balance sheet at December 31, 2006 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine-month period ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. For further information, refer to the financial statements and footnotes thereto included in the Optical Sensors Incorporated d/b/a väsamed Annual Report for the year ended December 31, 2006.

Note B - Stock-Based Compensation

The Company's 2003 Stock Option Plan provides for the issuance of incentive and non-qualified stock options to employees, directors and consultants. This plan is administered by the compensation committee of the Board of Directors, which selects persons to receive awards and determines the number of shares subject to each award and the terms, conditions, performance measures and other provisions of the award. See Note 11 of the Company's financial statements in its Annual Report for the year ended December 31, 2006 for additional information related to the stock option plan.

Effective January 1, 2006, the Company adopted SFAS No. 123R *Accounting for Stock-Based Compensation* (SFAS 123R), which requires companies to measure and recognize compensation expense for all stock-based payments at fair value. SFAS 123R is being applied on the modified prospective transition method and therefore the Company has not restated results for prior periods. The financial statements for the nine months ended September 30, 2006 recognize compensation cost for the value of certain options that were modified. The Company recognizes stock-based compensation costs on a straight-line basis over the requisite service period of the award, which is generally the option vesting term. Stock-based compensation expense was \$27,349 and \$55,583 for the three months ended September 30, 2007 and 2006 and \$78,868 and \$146,428 for the nine months ended September 30, 2007 and 2006 respectively.

The weighted average fair value of options granted during the three and nine months ended September 30, 2007 and 2006 was calculated using the Black-Scholes option pricing model with the following valuation assumptions and weighted average fair value as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Weighted average fair value of grants	\$1.00	\$1.87	\$1.00	\$1.94
Expected volatility	239.74%	200.42%	239.74%	142.61%
Dividend yield	0	0	0	0
Risk-free interest rate	4.42%	4.88%	4.42%	5.04%
Expected term in years	7	7	7	7

The volatility factor is based on the Company's historical stock price fluctuations for a period matching the expected life of the options. The Company has not, and does not intend to, issue dividends; therefore, the dividend yield assumption is 0. The Company applied the risk-free interest rate based on the U.S. Treasury yield in effect at the time of the grant. The expected term of the option is based on the contractual period of the options granted. An estimated forfeiture rate of 10% will be used for options granted, which estimate is considered to be a reasonable indicator of future performance in the opinion of management.

Note C – Inventories

Inventories consisted of the following:

	September 30, 2007	December 31, 2006
Finished goods	\$ 197,270	\$ 290,877
Raw materials	343,442	424,561
	<u>\$ 540,712</u>	<u>\$ 715,438</u>

Note D – Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	September 30, 2007	December 31, 2006
Leased equipment	\$ -	\$ 1,157,989
Research and development equipment	452,148	876,787
Leasehold improvements	340,801	340,801
Furniture and equipment	416,535	410,090
Production equipment	521,390	524,815
Marketing equipment	106,859	101,680
	<u>1,837,733</u>	<u>3,412,162</u>
Less accumulated depreciation	(1,605,504)	(3,116,994)
	<u>\$ 232,229</u>	<u>\$ 295,168</u>

During 2007 the Company conducted an inventory of fixed assets. Assets which are no longer in use were written off resulting in a reduction of fixed assets and accumulated depreciation of \$1,320,345. This adjustment had no effect on net loss or accumulated deficit for the nine months ended September 30, 2007. In addition, any leased equipment still in use was reclassified to the proper fixed asset category.

Note E – Preferred Stock

The Company's Series A, B, C and D convertible preferred stock contain terms that require payment in preference to the Company's common stock and with respect to certain Series D convertible preferred stock, in preference to the Series A, B and C convertible preferred stock, in the event of the liquidation, dissolution or winding-up of the Company. Events including the merger, acquisition or consolidation of the Company resulting in a change in control or the sale, lease, license or transfer of all or substantially all of the Company's assets are also considered to be a liquidation, dissolution or winding up of the Company. The Company believed that all of the events requiring the payment of a liquidation preference were effectively within the control of the Company's Board of Directors pursuant to certain requirements of Delaware General Corporation Law as well as the Company's Rights Agreement dated December 3, 1996 (see Note 8 of the Company's financial statements in its Annual Report for the year ended December 31, 2006). Accordingly, prior to December 31, 2006 the Company had classified the Series A, B and C convertible preferred stock as permanent equity and noted such liquidation preferences on its balance sheet.

On December 2, 2006, the Company's Rights Agreement expired. Following the expiration of the Company's Rights Agreement, the Company believed certain events considered to be a liquidation, dissolution or winding up of the Company are outside of the control of its Board of Directors. Therefore, in accordance with Rule 5-02.28 of Regulation S-X and *EITF Abstracts*, Topic No. D-98, the Company's Series A, B, and C convertible preferred stock and related additional paid-in capital were reclassified as temporary equity on the Company's balance sheet at December 31, 2006. This reclassification had no effect on net loss, accumulated deficit or loss per share for the year ended December 31, 2006. The reclassification caused temporary equity to increase by \$14,405,910 and shareholders' equity to decrease \$14,405,910. For a further discussion of the terms of the Company's convertible preferred stock see Note 16 of the Company's financial statements in its Annual Report for the year ended December 31, 2006.

Note F – Exclusive License Agreement

The Company has a patent license agreement with the Institute of Critical Care Medicine (ICCM) pursuant to which the Company pays an annual minimum royalty of \$400,000 for the exclusive worldwide rights under ICCM's pending and issued patents to use our technology to assess tissue perfusion under the tongue (sublingually) and in the esophagus to aid in the diagnosis and monitoring of shock. The license agreement also requires payment of a customary royalty equal to a percentage of sales.

Note G – Advances from Shareholder

The Company has been dependent upon cash advances from Circle F Ventures, LLC and affiliates (“Circle F”) for continued funding of its operations. From March 2000 through September 30, 2007, Circle F has provided approximately \$16,700,000 of capital to fund ongoing operations through a series of equity financings, bridge loans and cash advances. During the nine months ended September 30, 2007 the Company received \$1,547,000 in additional advances from shareholders bringing the total advances to \$1,947,000. These advances along with the imputed interest of \$98,765 for a total of \$2,045,765 were converted to 22,730 shares of Series D convertible preferred stock. See footnote K for more information regarding Series D convertible preferred stock. During the quarter ended March 31, 2006, the Company had outstanding advances of \$350,000 from Circle F which were converted into the purchase of Series C preferred stock. An imputed Preferred Stock dividend of \$101,114 was recorded as a result of this transaction. In the first quarter of 2006, Circle F advanced the Company an additional \$400,000. Of this amount, \$100,000 was converted into the purchase of promissory notes and the remaining \$300,000 along with an additional \$100,000 advance from shareholders received in the fourth quarter 2006 was reflected as outstanding advances totaling \$400,000 at December 31, 2006. These advances bore no interest, were unsecured and contained no conversion features. The Company had imputed interest on the advances from Circle F at an interest rate of prime plus 2% (9.75% at September 30, 2007 and 2006) and recorded interest expense of \$15,314 and \$5,499 for the three months ended September 30, 2007 and 2006 and \$59,789 and \$29,576 for the nine months ended September 30, 2007 and 2006. This interest was recorded as a contribution to equity as additional paid-in-capital but was subsequently converted to Series D convertible preferred stock.

Note H – Patents

Patents are stated at cost and are amortized upon issuance of a patent on a straight-line basis over 60 months. Amortization expense was \$19,430 and \$17,122 for the three months ended September 30, 2007 and 2006, respectively, and \$50,110 and \$52,350 for the nine months ended September 30, 2007 and 2006, respectively. Estimated amortization expense for the next five years of patents issued as of September 30, 2007 is as follows:

Year ending December 31:	
2007	\$66,813
2008	53,479
2009	23,173
2010	20,615
	<u>\$164,080</u>

Note I – Debt issuance costs

Debt issuance costs are amortized over the life of the convertible notes payable of 18 months using the straight-line method, which approximates the interest method. Amortization of debt issuance costs was \$278,222 and \$146,624 for the three months ended September 30, 2007 and 2006 and \$631,309 and \$263,346 for the nine months ended September 30, 2007 and 2006, respectively. Debt issuance costs are included in interest expense. Due to the conversion of the convertible notes payable to Series C preferred stock on August 31, 2007 all remaining debt issuance costs were expensed at that time. See note J regarding the conversion of convertible notes payable to Series C preferred stock.

Note J – Bridge Financing and Increase in authorized Shares of Preferred C Stock

On February 6, 2006, the Company commenced a bridge financing, pursuant to which the Company issued in a private placement convertible promissory notes in the aggregate principal amount of up to \$4,500,000 (the “Notes”) with detachable warrants. The Agency Agreement was amended to extend the term of the offering period from September 30, 2006 to January 6, 2007 and to increase the aggregate principal amount of the Notes to be issued and sold from \$4,500,000 to \$5,647,950. Through December 31, 2006, the Company had received \$4,528,000 (including \$100,000 which was a conversion from a shareholder advance), \$375,000 of which was sold to Circle F and \$4,153,000 of which was sold to various third party investors.

In conjunction with the bridge financing on January 27, 2006, the Company filed a Certificate of Increase of Shares of Series C preferred stock with the Secretary of State of Delaware for the Company’s Series C preferred stock that increased the number of authorized shares of Series C preferred stock from 115,000 to 166,666

On February 26, 2007 the Board of Directors approved the conversion of the amounts payable to Fleming Securities and other related parties for financing costs to a convertible promissory note. This transaction increased convertible notes payable and reduced amounts payable to shareholders for financing costs by \$635,130 bringing the total of convertible notes payable to \$5,163,130. See additional details regarding this transaction below.

The Notes bore interest at the rate of ten percent per annum until paid in full. All outstanding principal and interest on the Notes was due and payable eighteen months from the date of issuance unless converted pursuant to the Notes’ terms prior to such date. The Notes were collateralized by a security interest in all of the Company’s assets, except for the Company’s intellectual property.

The Notes were convertible, at the option of the holders, into shares of the Company’s Series C preferred stock at a conversion price of \$90.00 per share. All outstanding principal and, at the Company’s election, accrued interest under the Notes will automatically convert into shares of Series C preferred stock upon (i) the closing of a private placement of equity securities of the Company in one or more transactions with gross proceeds to the Company totaling at least \$5 million, before deduction of commissions and expenses, or (ii) upon an acquisition of the Company or of all or substantially all of its assets. Each share of Series C preferred stock by its terms was initially convertible into 40 shares of the Company’s common stock at a conversion price of \$2.25 per share. The conversion price of the Series C preferred stock was subject to adjustment as provided in the Certificate of Designation for the Series C preferred stock.

Each purchaser of a Note also received a warrant to purchase 10,000 shares of common stock for every \$100,000 in principal of the Note. The warrants are exercisable for a period of five years from the date of issuance. The initial warrant exercise price is \$2.25 per share and is subject to adjustment if the Company issues securities at a price of less than \$2.25 per share, subject to customary exceptions, as set forth in the warrant. The purchasers of the notes are also entitled to demand and piggyback registration rights with respect to the shares of common stock underlying the Series C preferred stock issuable upon conversion of the Note and the common stock issuable upon exercise of the warrants.

Pursuant to this financing, the purchasers of the convertible debt were issued warrants for the purchase of 452,800 shares of common stock. The gross proceeds of the financing were allocated between the convertible note and the common stock warrants based on the relative fair values of the securities at the time of issuance. The common stock and warrants were valued using the Black-Scholes pricing model. The resulting original issue discount, the fair value of the warrants and the beneficial conversion of the note into common stock as defined in EITF 00-27, “Application of Issue No. 98-5 to Certain Convertible

Instruments”, will be amortized over the life of the promissory notes using the straight-line method, which approximates the interest method. The allocation of the gross proceeds of the convertible notes payable as of December 31, 2006 is summarized below:

	<u>December 31, 2006</u>
Proceeds received from convertible notes payable	\$ 4,528,000
Value of 452,800 warrants, respectively allocated to additional paid in capital	(558,851)
Value of beneficial conversion of notes payable allocated to additional paid in capital	<u>(948,338)</u>
Convertible note payable, net of original issue discount	3,020,811
Amortization of original issue discount	761,670
Less current portion	<u>(3,016,000)</u>
Convertible note payable, net	<u>\$ 766,481</u>

In connection with the bridge financing, the Company executed an Agency Agreement with Fleming Securities, Inc., a broker dealer affiliated with Circle F, and agreed to: (i) pay the agent, a selling commission equal to 10% of the gross proceeds from the sales of the notes and warrants sold in this bridge financing; (ii) sell to the agent, for nominal consideration, ten-year warrants to purchase common stock at 120% of the exercise price of the warrants sold in this bridge financing, a number of shares of common stock equal to 10% of the number of shares of common stock that may be purchased pursuant to warrants sold in this bridge financing; (iii) pay the agent a non-accountable expense allowance equal to 3% of the gross proceeds from sales of notes and warrants in this bridge financing; and (iv) reimburse the agent for its accountable expenses of this bridge financing not to exceed \$50,000. The Company had estimated the fees and value of the warrants as of December 31, 2006 and recorded debt issuance costs of \$1,041,798 which will be amortized over the life of the related notes as additional interest expense. No additional debt issuance cost were estimated as a result of the conversion of the amounts payable to Fleming Securities and other related parties for financing costs to a convertible promissory note during the first quarter of 2007, however there was an adjustment of \$16,490 to accrue additional expenses for Fleming Securities. Total debt issuance costs were \$1,058,288. Fleming Securities received warrants to purchase 200,044 shares of common stock at a price of \$2.70 per share as a result of its role as agent in this financing.

Interest expense recorded for convertible notes payable was \$93,845 and \$89,788 for the three months ended September 30, 2007 and 2006 and \$350,783 and \$175,567 for the nine months ended September 30, 2007 and 2006.

On August 31, 2007, the Company completed a private placement of equity securities with gross proceeds to the Company of more than five million dollars. Accordingly, the convertible notes payable, totaling \$4,528,000, automatically converted to shares of Series C preferred stock on that date at the convertible note's conversion price of \$90.00 per share of Series C preferred stock. The Company also elected to convert all accrued interest on the convertible notes payable through the date of conversion to Series C Stock. The total of accrued interest was \$578,963. The Company issued 56,730 shares of Series C preferred stock as a result of this transaction.

On February 26, 2007 the Board of Directors approved the conversion of the amounts payable to Fleming Securities and other related parties for financing costs to a convertible promissory note. This note had all of the features of the Notes sold during 2006 with some exceptions. The first exception was that the note was convertible into the Company's Series C Preferred Stock or the equity security issued in the next round of financing for the Company. The second exception was that Fleming securities must elect to convert - there is no automatic conversion. The third exception was there are no warrants up front. If Fleming Securities elects to convert, they have the right to purchase warrants for \$100 a warrant on the same terms as the other investors received (i.e. a warrant for 10,000 common shares for every \$100,000 converted). As a result of this transaction amounts payable to shareholders for financing costs were reduced and long-term convertible notes payable was increased by \$635,130 during the first quarter of 2007. During April 2007, the Company sold an additional \$500,000 of convertible promissory notes to an outside party under the same conditions granted Fleming Securities and other related parties for the conversion of their amounts payable for financing costs to bring the total of these convertible notes payable to \$1,135,130. On August 24, 2007 these convertible promissory notes and accrued interest of \$49,330 for a total of \$1,184,460 were converted to Series D preferred stock. The Company issued 13,162 shares of Series D preferred stock as a result of this transaction. See note K for more information concerning Series D preferred stock.

Note K – Series D Convertible Preferred Stock

On July 27, 2007 the Company's Board of Directors adopted a resolution creating a new series of preferred stock to be designated as Series D Preferred Stock. The Company is authorized to issue up to 55,556 shares of Series D convertible preferred stock. On August 30, 2007 the Board of Directors increased the authorized shares of Series D convertible preferred stock to 70,556. Each share of Series D convertible preferred stock entitles the holder thereof to vote on all matters submitted to holders of common stock, and each share of preferred stock has the number of votes equal to the number of shares of common stock into which it may be converted. Each share of Series D convertible preferred stock is currently convertible into forty shares of common stock. The conversion price of the Series D preferred stock is subject to adjustment as provided in the Certificate of Designation for the Series D preferred stock. Upon a liquidation, dissolution or winding up of the Company, each holder of Series D preferred stock is entitled to be paid *pari passu* with Series A, B and C preferred stock, prior to any distribution or payment to holders of common stock, at an amount equal to the per share price at which the Company issued shares of Series D convertible preferred stock, or \$90.00 per share. The holders of Series A convertible preferred stock exchanged their preferential liquidation rights (entitling them to be paid before the holders of Series B, C and D preferred stock) to the first \$1,500,000 in sales to outside investors of Series D convertible preferred stock. A sale of the Company will be deemed to be a liquidation, dissolution or winding up for this purpose. In addition, the Company has agreed to issue a warrant to purchase 10,000 shares of the Company's common stock for every \$100,000 of Series D preferred stock purchased at an exercise price of \$2.25 per share. The initial warrant exercise price is subject to adjustment as set forth in the warrant. The warrants are exercisable for a period of five years from the date of issuance. Fleming Securities, Inc. is not charging the Company any fees for the sale of Series D convertible preferred stock. See Note 16 of the Company's financial statements in its Annual Report for the year ended December 31, 2006 for additional information related to preferred stock.

During the third quarter of 2007 Circle F converted advances and accrued interest to the Company, totaling \$2,045,765 for a total of 22,730 Shares of series D convertible preferred stock. In addition, certain convertible promissory notes and accrued interest on these notes totaling \$1,184,460 were converted to 13,162 shares of series D convertible preferred stock (see Note J), \$648,694 of these convertible promissory notes and 7,208 shares of series D convertible preferred stock belong to Circle F and other related parties. The Company sold an additional 19,667 shares of series D convertible preferred stock for \$1,770,090, 3001 shares of which Circle F purchased for \$270,090. Total proceeds from the sale of Series D convertible preferred stock was \$5,000,314 and total shares issued was 55,559. Warrants were issued in accordance with the agreement - the outside investors receiving 230,587 warrants and Circle F and other related investors collectively receiving 269,446 warrants for a total of 500,032 warrants. Since the exercise price of the warrants was higher than the fair market value price of the common stock at the date of the conversion no beneficial conversion was recorded on the books of the Company.

Note L – Conversion of Series C preferred stock to common stock

The terms of the Series C preferred stock provided that each share of Series C Stock would automatically be converted into shares of Common Stock upon the closing by the Company of a private placement of equity securities at a conversion price of not less than \$2.25 that yields to the Company gross proceeds of no less than five million dollars in the aggregate. On August 31, 2007, the Company completed a private placement of equity securities with gross proceeds to the Company of more than five million dollars. Accordingly, 103,910 shares of Series C Stock automatically converted on that date to 4,156,400 shares of Common Stock. The holders of Series C preferred stock paid \$90.00 per share of Series C Stock which at the conversion price of \$2.25 per share of Common Stock yielded 40 shares of Common Stock for each share of Series C Stock held the investor for a total value of \$9,351,900 for the converted shares.

Note M – Name Change

Since early 2004, Optical Sensors Incorporated has been doing business as “väsamed”. The Company has become known in the medical community as väsamed and the Company concluded that our corporate name should be changed to reflect this acceptance by our customers. Accordingly, under the laws of Delaware where the Company is incorporated, on June 22, 2007 the holders of a majority of shares entitled to vote consented to a change in our name to VÄSAMED, Inc. and our Certificate of Incorporation has been amended to reflect this change.

Note N – Going Concern

Recurring net losses, including \$6,375,722 in 2006 and \$4,446,177 in the nine months ended September 30, 2007, have resulted in an accumulated deficit of \$103,308,170. The Company’s ability to continue as a going concern and the realization of its assets and the orderly satisfaction of its liabilities are dependent on obtaining additional funds from outside sources. Due to the successful private placement of equity securities during 2007 the Company does not anticipate the need for further funding for 2007. However, the Company estimates its projected total cash needs for 2008 to be \$10,000,000 in addition to anticipated revenues from net sales. These projected total cash needs include expenditures for enhancements to and marketing of the SensiLase, MicroStat and AcQtrac Systems. Although the Company plans to raise equity pursuant to private placements of securities that will satisfy its cash requirements for the next year, there can be no assurance that the Company will be successful.

Note O – Major Customers

For the three and nine month periods ended September 30, 2007, approximately 29% and 38% of revenues, respectively, came from a single customer compared to 23% and 59% of revenues for the three and nine month periods ended September 30 2006, respectively.

Note P – Subsequent Events

On October 26, 2007 the Board of Directors approved an engagement letter with an investment banking company to raise up to \$20,000,000 in equity for the Company. The Company plans to use the proceeds for additional marketing and sales efforts, improvements to present products and for working capital needs.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 amount of revenue and expenses during the reporting period. Actual results could differ from those estimates.

CERTIFICATIONS

I, Paulita LaPlante, President and Chief Executive Officer of VÄSAMED, Inc. on this 26th day of October 2007, hereby certify and attest that the September 30, 2007 and 2006 financial statements filed herewith and all the notes thereto, fairly represent in all material aspects, the financial position of VÄSAMED, Inc. and the results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted (GAAP) in the United States, consistently applied.

The undersigned hereby states that she has read the information set forth herein above, and attests hereby to the best of her knowledge and belief; such information is true and correct.

Signed this 26th day of October 2007

VÄSAMED, Inc.

/S/ Paulita LaPlante

I, Roberta Dircks, Vice President of Finance and Administration and Chief Financial Officer of VÄSAMED, Inc, on this 26th day of October 2007, hereby certify and attest that the September 30, 2007 and 2006 financial statements filed herewith and all the notes thereto, fairly represent in all material aspects, the financial position of VÄSAMED, Inc. and the results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted (GAAP) in the United States, consistently applied.

The undersigned hereby states that she has read the information set forth herein above, and attests hereby to the best of her knowledge and belief; such information is true and correct.

Signed this 26th day of October 2007

VÄSAMED, Inc.

/S/ Roberta Dircks