

**AKERS BIOSCIENCES INC.**  
**Interim results for the half year ended 30 June, 2002**

Akers Biosciences, a leading designer and manufacturer of rapid diagnostic screening and testing products, announces its first set of interim results since its listing on the Alternative Investment Market of the London Stock Exchange in May 2002.

**Highlights**

- Successful fund raising of \$3.8 million net in May 2002, associated with the AIM listing
- Half year results reflect the transition of the company towards commercial operation
- Investment in sales and marketing, manufacturing and product development infrastructure
- Appointment of a Vice-President for International Sales and Marketing based in London
- Cash balance totaling \$2.1 million

**Prospects**

- Awarded \$14.5 million of contracts from the Kenyan Ministry of Health, financed by the World Bank, over an 18 month period to provide diagnostic tests, including tests for AIDS and syphilis.
- Two further Kenyan contracts with the AIDS Control Commission and the Kenyan Ministry of Defence expected in 2002 and 2003 amounting to a similar total value
- Further progress being made with the technology platform to develop tests for the future to deliver quantitative readings

Ray Akers, Chief Executive Officer of Akers Biosciences, said:

“The AIM listing allowed us to develop our early stage infrastructure to put in place the people, manufacturing and research capabilities to take the business forward. We have been able to build up our sales and marketing initiatives and really put the time and effort to develop relationships with governments of developing countries, international aid organisations and pursue opportunities with the military sector.

“I am delighted to announce today that two contracts we have been awarded from the Kenyan Ministry of Health to provide diagnostic tests for use in the healthcare system in Kenya. This is an exciting time for the business and whilst the value of this contract will be phased in over the next eighteen months, the total potential value of contracts from Kenya exceeds our initial expectations and will provide a strong foundation of contribution and cash flow.”

**Enquiries:**

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## CHAIRMAN'S STATEMENT

### Introduction

I am pleased to report the first set of results for Akers Biosciences as a publicly quoted Company. On 22 May, the Company's shares were admitted to trading on the Alternative Investment Market of the London Stock Exchange and the Company raised £3.4 million through a placing with institutional investors.

Since the listing, we have been able to progress negotiations on several key contracts in the developing world, as well as take forward the development and distribution of two potential high growth products for physician-led markets. While the interim results reflect the transitional activities of the Company as it emerges from the development to the operating stage, we believe these activities provide a good foundation for significant future revenues.

Akers Biosciences' diagnostic and testing products are designed to bring healthcare information both rapidly and directly to the doctor or the patient in the clinic or in the field without the need for expensive laboratory equipment. Our strategy is to become a market leader in rapid testing using our proprietary technologies to generate products with clear competitive advantages in targeted markets. These products are intended for professional, consumer, and military markets in both the developed and developing world, and are brought to market through strategic partnerships with established distribution organisations.

### Results

The six months ended 30 June, 2002 comprised a period of investment in the expansion of the manufacturing and development capabilities of our organization. Revenues for the period were \$529,507, compared with \$122,293 during the same period in 2001. The loss before tax was \$1,573,855 (2001:\$2,081,245), resulting in a loss per share of \$0.05 (2001:\$0.06). These revenues reflect initial sales into a small customer base, with significant growth potential. While it has taken longer than anticipated to bring some major contracts to completion, these are now expected to contribute to rapid growth in the near term, as demonstrated by the significant contract with the Kenyan Ministry of Health announced today.

### Business Development

Based on its proprietary Particle ImmunoFiltration Assay (PIFA) technology, Akers currently supplies a range of rapid diagnostic tests for HIV and other sexually transmitted diseases, hepatitis, malaria, prostate cancer, blood typing, and other non-infectious markers that produce results within minutes. Because of its wide range of products and flexible technologies, the company's products have applications in a number of market segments. Products are being launched in the near or mid-term based on the market characteristics of these segments.

In this period the Company has had detailed discussions on disease management programs with the governments of several developing countries, where screening and management for HIV/AIDS and sexually transmitted diseases are funded by international aid organizations such as the World Bank. Our negotiations with authorities in Kenya have led to today's announcement on a contract award for the supply of products to Kenya, financed by the World Bank. The total value of this contract is \$15 million, with delivery to be completed within 18 months. In addition, the Company has received notification of additional awards in Kenya of similar value spread over 2002 and 2003. We hope to receive formal contracts for these shortly.

In the mid-term, the Company is on track to bring new products and distribution arrangements online in developed markets with rapid growth potential. In particular, as highlighted in our listing prospectus, we are developing a rapid white blood cell count and absolute neutrophil count assays to monitor side effect of the Novartis drug clozaril (clozapine) under contractual arrangement with ReliaLab, a Novartis spin-out. The test is intended to support or enhance the market penetration of a pharmaceutical product. We are also developing high

margin niche products for well established brand names and anticipate announcing shortly the signing of a strategic partnership agreement with a leading e-commerce supplier of medical products and services to physicians in the US to provide marketing and distribution services for some of the Company's products.

[Details of progress with Boots to be inserted]

In addition to these opportunities, the Company is pursuing significant opportunities in the military sector as well as taking forward the other distribution and partnership opportunities in developed countries set out in the prospectus.

### **Operational Developments**

The proceeds from the listing have enabled the Company to expand its sales and marketing, manufacturing, and product development infrastructure. We have appointed a Vice-President for International Sales and Marketing, Dr Michael Hudson, based in the company's London office. His responsibilities will be to grow sales in the UK and European retail and professional markets through strategic alliances, as well as the management of certain tenders to key aid organisations.

A programme has been put in place to enhance the Company's manufacturing capabilities. Additional production equipment and contract packaging arrangements are scheduled to come onstream in 2003. Resources have also been allocated to product development which is expected to deliver faster market introductions from the product concept stage. In addition to the speedier development of specific assays, this enhanced capability will accelerate the completion of two new product developments: a quantitative, non-instrumented rapid test for drug and biomarker levels, and a third generation finger stick blood assay [**what are the potential markets?**].

### **Finance**

At 30 June, the Company had cash balances totaling \$2,055,000 remaining out of the \$3,800,000 net raised at the time of the flotation. The Company has tightly controlled cash with its keen focus on manufacturing and development of contracted products.

The Company expects to receive cash of \$1.45 million and a letter of credit for \$11.6 million within four business days in connection with the Kenyan Ministry of Health contract announced today. The letter of credit, to be issued a major international bank, will be drawn down as shipments occur.

### **Current Trading and Outlook**

The contract with the Kenyan Ministry of Health announced today, together with the expected confirmation of two future contracts with Kenyan authorities will produce significant short term revenue. While there remains some uncertainty about how much of this revenue will be captured in this financial year and how much will fall into next year, the total potential value of these contracts exceeds our initial expectations and will provide a strong foundation of contribution and cash flow.

As described above, the Company has also entered into development and supply arrangements for niche products for distribution in the developed world that are expected to provide sustainable long term growth.

**Akers Biosciences Inc.**  
**Interim financial statements**

**1. Consolidated Balance Sheets as at 30 June 2001 and 2002 (unaudited)**

	2002	2001
	\$	\$
<b>Current Assets</b>		
Cash in banks	2,055,257	104,453
Accounts receivable, net	375,662	48,031
Inventories, at lower of cost or market	48,931	103,000
Loan receivable	125,000	-
Prepays and other current assets	94,091	17,627
<b>Total current assets</b>	<b>2,698,941</b>	273,111
<b>Property and equipment, at cost</b>	<b>1,190,594</b>	1,126,885
Less : depreciation taken to date	781,577	628,374
<b>Property and equipment, net</b>	<b>409,017</b>	498,511
<b>Other assets</b>		
Patent pending costs	158,500	120,553
Intangible assets, net	12,785	19,152
Deposits and other assets	10,767	16,407
<b>Total other assets</b>	<b>182,052</b>	156,112
<b>Total assets</b>	<b>3,290,010</b>	927,734
<b>Current liabilities</b>		
Accounts payable and accrued expenses	674,981	2,040,767
Convertible debt	100,000	700,000
Payroll taxes due	317,656	31,314
Current portion of long-term debt	650,000	461,910
<b>Total current liabilities</b>	<b>1,742,637</b>	3,233,991
<b>Long -term debt, net of curent maturities</b>		
Long term obligations	720,231	2,450,562
Deferred Compensation	115,000	115,000
<b>Total long term debt</b>	<b>835,231</b>	2,565,562
<b>Equity (deficit)</b>		
Common stock	39,119,128	28,905,342
Accumulated deficit	(38,406,986)	(33,777,161)
<b>Total stockholders' equity ( deficit)</b>	<b>712,142</b>	(4,871,819)
<b>Total liabilities and stockholders' equity</b>	<b>3,290,010</b>	927,734

**2. Consolidated Statements of Operations for six months ended 30 June 2001 and 2002 (unaudited)**

	2002	2001	Cumulative amount from inception (8 March 1989 to 30 June 2002)
	\$	\$	\$
<b>Revenues</b>	<b>529,507</b>	122,293	2,415,783
<b>Cost of Production</b>	<b>696,379</b>	604,926	4,986,743
<b>Gross Profit (Loss)</b>	<b>(166,872)</b>	(482,633)	(2,570,960)
<b>Sales and General and Administrative Expenses</b>	<b>1,209,328</b>	1,089,581	20,286,844
<b>Research and Development Expenses</b>	<b>362,689</b>	412,855	7,294,360
<b>Total Operating Expenses</b>	<b>1,572,017</b>	1,502,436	27,581,204
<b>Income (Loss) From Operations</b>	<b>(1,738,889)</b>	(1,985,069)	(30,152,164)
<b>Discontinued Operations</b>			
<b>Loss from operation</b>	-	-	(4,594,164)
<b>Loss on disposal of Franklin Development</b>	-	-	(870,276)
<b>Total discontinued operations</b>	-	-	(5,464,440)
<b>Other Income (expense)</b>			
<b>Miscellaneous</b>	-	-	75,302
<b>Interest Income</b>	<b>1,060</b>	6,246	223,615
<b>Currency Translation Income</b>	<b>63,411</b>	-	63,411
<b>Extraordinary Income</b>	<b>299,870</b>	2,712	1,721,536
<b>Loss on disposal of property and equipment</b>	-	-	(836,904)
<b>Interest Expense</b>	<b>(199,307)</b>	(105,134)	(4,037,342)
<b>Total Other Income (Expense)</b>	<b>165,034</b>	(96,176)	(2,790,382)
<b>Net (Loss)</b>	<b>(1,573,855)</b>	(2,081,245)	(38,406,986)
<b>Net (Loss) per share</b>	<b>(0.05)</b>	(0.06)	

### 3. Consolidated Statements of Stockholders' Deficit from inception (8 March 1989) to 30 June 2002 (unaudited)

	Preferred Stock		Common Stock		Deficit Accumulated	Total
	Shares	Amount	Shares	Amount	During the Development Stage (March 1989 to 30 June, 2002)	
		\$		\$	\$	\$
<b>Balance 31 December 1989</b>	-	-	100	100	(69,252)	(4,557,654)
650 for 1 stock split effective 26 September 1990	-	-	65,000	-	-	-
Retirement of original shares	-	-	(100)	-	-	-
Issuance of stock for cash	-	-	5,000	250,000	-	250,000
Expenses associated with the sale of stock	-	-	-	(20,000)	-	(20,000)
Issuance of stock in connection with raising capital	-	-	6,000	70,850	-	70,850
Net loss for the year ended 31 December 1990	-	-	-	-	(405,508)	(405,508)
<b>Balance 31 December 1990</b>	-	-	76,000	300,950	(474,760)	(173,810)
Issuance of stock for cash	-	-	1,500	75,000	-	75,000
Issuance of stock in exchange for \$7,500 in cash and \$17,500 ...in satisfaction of trade payable balance during 1991	-	-	500	25,000	-	25,000
Net loss for the year ended 31 December 1991	-	-	-	-	(652,357)	(652,357)
<b>Balance 31 December 1991</b>	-	-	78,000	\$ 400,950	(1,127,117)	(726,167)
96 for 1 stock split effective 10 September 1992	-	-	7,410,000	-	-	-
Expiration of repurchase rights	-	-	-	77,500	-	77,500
Issuance of stock for net assets of Shantou Assoc.	-	-	388,889	106,136	-	106,136
Issuance of stock for cash	-	-	2,643,629	1,572,895	-	1,572,895
Expenses associated with the sale of stock	-	-	-	(30,000)	-	(30,000)
Issuance of stock in connection with raising capital	-	-	736,272	-	-	-
Net loss for the year ended 31 December 1992	-	-	-	-	(1,228,624)	(1,228,624)
<b>Balance 31 December 1992</b>	-	-	11,256,790	2,127,481	(2,355,741)	(228,260)
Issuance of preferred stock for stock of Franklin, Inc.	350,000	1,091,636	-	-	-	1,091,636
Issuance of stock for cash	-	-	2,772,405	2,972,288	-	2,972,288
Cost of stock issued subject to repurchase	-	-	-	(665,502)	-	(665,502)
Expenses associated with the sale of stock	-	-	-	(205,000)	-	(205,000)
Issuance of stock and warrants in connection with debt	-	-	250,000	280,000	-	280,000
Expiration of repurchase rights	-	-	-	234,667	-	234,667
Issuance of stock in connection with raising capital	-	-	45,000	-	-	-
Stock option plan and warrant transactions	-	-	-	219,892	-	219,892
Net loss for the year ended 31 December 1993	-	-	-	-	(3,107,631)	(3,107,631)
<b>Balance 31 December 1993</b>	350,000	1,091,636	14,324,195	4,963,826	(5,463,372)	592,090
Issuance of stock for cash	-	-	4,315,463	6,167,920	-	6,167,920
Cost of stock issued subject to repurchase	-	-	-	(861,357)	-	(861,357)
Expenses associated with the sale of stock	-	-	-	(446,337)	-	(446,337)
Issuance of stock for products and services	-	-	39,089	58,634	-	58,634
Issuance of stock in connection with raising capital	-	-	24,000	-	-	-
Stock option plan and warrant transactions	-	-	-	27,750	-	27,750
Warrants issued in connection with debt	-	-	-	300,000	-	300,000
Net loss for the year ended 31 December 1994	-	-	-	-	(4,730,005)	(4,730,005)
<b>Balance 31 December 1994</b>	350,000	1,091,636	18,702,747	10,210,436	(10,193,377)	1,108,695

	Preferred Stock		Common Stock		Deficit Accumulated	Total
	Shares	Amount	Shares	Amount	During the	
					Development	
					Stage (March 1989	
		\$		\$	to 30 June 2002)	\$
Issuance of stock for cash	-	-	914,500	1,264,250	-	1,264,250
Expiration of repurchase offer	-	-	-	153,510	-	153,510
Expenses associated with the sale of stock	-	-	-	(75,775)	-	(75,775)
Issuance of stock for products and services	-	-	27,787	37,980	-	37,980
Increase in basis of assets acquired from Shantou	-	-	-	243,710	-	243,710
Issuance of stock in connection with raising capital	-	-	66,891	-	-	-
Stock option plan and warrant transactions	-	-	-	60,625	-	60,625
Stock issued in connection with debt	-	-	553,518	553,518	-	553,518
Net loss for the year ended 31 December 1995	-	-	-	-	(5,643,213)	(5,643,213)
<b>Balance 31 December 1995</b>	<u>350,000</u>	<u>1,091,636</u>	<u>20,265,443</u>	<u>12,448,254</u>	<u>(15,836,590)</u>	<u>(2,296,700)</u>
Issuance of stock for cash	-	-	59,793	103,301	-	103,301
Expiration of repurchase offer	-	-	-	262,200	-	262,200
Stock option plan and warrant transactions	-	-	-	720,000	-	720,000
Net loss for the year ended 31 December 1996	-	-	-	-	(5,355,148)	(5,355,148)
<b>Balance 31 December 1996</b>	<u>350,000</u>	<u>1,091,636</u>	<u>20,325,236</u>	<u>13,533,755</u>	<u>(21,191,738)</u>	<u>(6,566,347)</u>
Issuance of stock for cash	-	-	695,704	555,872	-	555,872
Expiration of repurchase offer	-	-	-	353,899	-	353,899
Issuance of stock and warrants in connection with debt	-	-	187,500	392,292	-	392,292
Issuance of stock in conversion of debt	-	-	200,000	150,000	-	150,000
Expenses associated with the sale of stock	-	-	-	(7,500)	-	(7,500)
Net loss for the year ended 31 December 1997	-	-	-	-	(2,055,544)	(2,055,544)
<b>Balance 31 December 1997</b>	<u>350,000</u>	<u>1,091,636</u>	<u>21,408,440</u>	<u>14,978,318</u>	<u>(23,247,282)</u>	<u>(7,177,328)</u>
Issuance of stock for cash	-	-	2,929,004	1,526,250	-	1,526,250
Expiration of repurchase offer	-	-	-	757,250	-	757,250
Issuance of stock for products and services	-	-	126,565	94,840	-	94,840
Issuance of stock in conversion of debt	-	-	263,014	197,258	-	197,258
Expenses associated with the sale of stock	-	-	-	(117,075)	-	(117,075)
Conversion of previously issued stock for debt	-	-	(250,000)	(250,000)	-	(250,000)
Repurchase of previously issued preferred stock in ....exchange for cash and debt	(175,000)	(545,818)	-	404,640	-	(141,178)
Net loss for the year ended 31 December 1998	-	-	-	-	(1,743,232)	(1,743,232)
<b>Balance 31 December 1998</b>	<u>175,000</u>	<u>545,818</u>	<u>24,477,023</u>	<u>17,591,481</u>	<u>(24,990,514)</u>	<u>(6,853,215)</u>
Issuance of stock for cash	-	-	2,166,421	3,405,255	-	3,405,255
Repurchase of previously issued stock for cash	-	-	(106,440)	(129,917)	-	(129,917)
Repurchase of previously issued preferred stock in ....exchange for cash and debt	(175,000)	(545,818)	-	348,572	-	(197,246)
Expenses associated with the sale of stock	-	-	-	(143,906)	-	(143,906)
Issuance of stock in conversion of debt	-	-	2,771,503	2,078,628	-	2,078,628
Net loss for the year ended 31 December 1999	-	-	-	-	(2,717,253)	(2,717,253)
<b>Balance 31 December 1999</b>	<u>-</u>	<u>-</u>	<u>29,308,507</u>	<u>23,150,113</u>	<u>(27,707,767)</u>	<u>(4,557,654)</u>

	Preferred Stock		Common Stock		Deficit Accumulated During the Development Stage (March 1989 to 30 June 2002)	Total
	Shares	Amount \$	Shares	Amount \$	\$	\$
Issuance of stock for cash	-	-	2,054,244	3,765,427	-	3,765,427
Stock option plan and warrant transactions	-	-	-	305,508	-	305,508
Issuance of common stock for trade payables	-	-	-	184,993	-	184,993
Exercise of options and warrants	-	-	127,500	79,800	-	79,800
Interest expense on warrants issued	-	-	-	267,826	-	267,826
Issuance of stock in conversion of debt	-	-	366,114	732,227	-	732,227
Net loss for the year ended 31 December 2000	-	-	-	-	(3,988,149)	(3,988,149)
<b>Balance 31 December 2000</b>	-	-	<b>31,856,365</b>	<b>28,485,894</b>	<b>(31,695,916)</b>	<b>(3,210,022)</b>
Issuance of stock for cash	-	-	272,262	414,875	-	414,875
Stock option plan and warrant transactions	-	-	-	1,712,065	-	1,712,065
Issuance of stock for products and services	-	-	26,000	52,000	-	52,000
Exercise of options and warrants	-	-	20,000	2,000	-	2,000
Issuance of common stock in exchange of trade payables	-	-	45,000	141,100	-	141,100
Net loss for the year ended 31 December 2001	-	-	-	-	(5,137,215)	(5,137,215)
<b>Balance, 31 December 2001</b>	-	-	<b>32,219,627</b>	<b>30,807,934</b>	<b>(36,833,131)</b>	<b>(6,025,197)</b>
Issuance of stock for cash	-	-	45,000	65,000	-	65,000
Proceeds from flotation (net)	-	-	2,525,000	3,876,177	-	3,876,177
Exercise of options and warrants	-	-	221,655	292,700	-	292,700
Issuance of common stock in exchange of trade payables	-	-	186,828	297,879	-	297,879
Issuance of common stock in exchange of debt	-	-	2,994,212	3,779,438	-	3,779,438
Issuance of common stock in exchange for termination of ....warrants	-	-	1,413,573	-	-	-
Net loss for the year as of 30 June 2002	-	-	-	-	(1,573,855)	(1,573,855)
<b>Balance, 30 June 2002, (Unaudited)</b>	-	-	<b>39,605,895</b>	<b>39,119,128</b>	<b>(38,406,986)</b>	<b>712,142</b>

**4. Consolidated Statement of Cash Flows) for the Six months ended 30 June (unaudited)**

 Cumulative amount  
 from inception  
 (8 March 1989  
 to 30 June 2002)

	<b>30 June</b>		
	<b>2002</b>	2001	
	\$	\$	\$
<b>Operating Activities</b>			
Net loss	(1,573,855)	(2,081,245)	(38,406,986)
Adjustments to reconcile net loss to cash used in operating activities			
Depreciation and amortization	66,000	54,000	2,060,097
Interest expense paid in common stock	110,547	-	110,547
Forgiveness of trade payables	-	-	(717,303)
Debt conversion costs	-	-	267,826
Amortization of discount on long-term debt	-	-	585,862
Amortization of deferred finance costs	-	-	16,381
Stock, Stock options and warrants issued to employees and non-employees	-	-	3,089,733
Loss on conversion of debt to common stock	-	-	194,040
Loss from disposition of property and equipment	-	-	756,730
Loss on disposal of division	-	-	870,276
Deferred compensation	-	-	115,000
(Increase) decrease in changes in operating assets and liabilities:			
....Accounts receivable	(314,790)	52,553	(375,662)
....Inventories	136,000	-	(48,931)
....Prepays and other current assets	(76,810)	44,060	(96,903)
....Deposits and other assets	(4,360)	(1,904)	(1,548)
Increase (decrease) in			
....Accounts payable and accrued expenses	(651,130)	239,703	2,705,603
....Payroll taxes payable	245,746	6,982	317,656
....Other current liabilities	(34,882)	-	13,500
<b>Net cash used in operating activities</b>	<b>(2,097,534)</b>	<b>(1,685,851)</b>	<b>(28,544,082)</b>
<b>Investing activities</b>			
Purchase of property and equipment	(13,991)	(37,901)	(3,327,147)
Loan receivable advanced	(125,000)	-	(125,000)
Net proceeds from sale of property and equipment	-	-	1,817,904
Purchase of intangible assets	(6,191)	(14,931)	(555,486)
<b>Net cash used in investing activities</b>	<b>(145,182)</b>	<b>(52,832)</b>	<b>(2,189,729)</b>
<b>Financing Activities</b>			
Net proceeds (payment) from release of funds			
held in escrow/restricted funds	-	-	296,002
Proceeds from issuance of stock, net	330,000	419,448	21,643,746
Proceeds from IPO, net of costs	3,876,177	-	3,876,177
Proceeds from issuance of convertible debt	-	700,000	1,350,000
Proceeds from borrowings	650,000	-	13,375,176
Repayments on officers and stockholders borrowings	-	-	(263,725)
Repayments on convertible debt	(300,000)	-	(300,000)
Repayments on capital lease obligations	(5,700)	(4,380)	(23,920)
Repayments on borrowings	(459,133)	(288,338)	(7,164,388)
<b>Net cash provided by financing activities</b>	<b>4,091,344</b>	<b>826,730</b>	<b>32,789,068</b>
<b>Increase (decrease) in cash</b>	<b>1,848,628</b>	<b>(911,953)</b>	<b>2,055,257</b>
<b>Cash as at beginning of year</b>	<b>206,629</b>	<b>1,016,406</b>	<b>-</b>
<b>Cash as at 30 June</b>	<b>2,055,257</b>	<b>104,453</b>	<b>2,055,257</b>

**4. Consolidated Statements of Cash Flows for the six months ended 30 June(unaudited) - continued**

	<b>Six months ended 30 June</b>		Cumulative amount from inception (8 March 1989 to 30 June 2002)
<b>Supplemental disclosures of Cash Flow information:</b>	<b>2002</b>	2001	
	\$	\$	\$
Non-cash investing and financing activities are as follows:			
Issuance of preferred stock and notes payable in connection with the ...acquisition of a subsidiary	-	-	1,321,636
Capital lease obligation incurred related to acquisition of equipment	-	-	38,140
Conversion of debt and accrued interest payable to common stock (Note 10)	<b>3,779,438</b>	-	4,317,625
Common stock and warrants issued in connection with debt	-	-	11,435,189
Conversion of trade payable to debt	-	-	255,088
Conversion of trade payable to common stock	<b>297,879</b>	-	641,472
Acquisition of its preferred stock for debt	-	-	341,820
Conversion of accrued interest payable to debt	-	-	327,353
Conversion of Company's common stock for debt	-	-	250,000
Conversion of Directors' loan to common stock	-	-	2,050,000
<b>Cash paid during the period for interest</b>	<b>43,101</b>	32,813	3,160,207

## **5. Notes to Interim Financial Statements**

### **5.1 Summary of significant accounting policies**

#### **Basis of presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and do not include all 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 interim 6 month period ended June 30, 2002 are not necessarily indicative of results that may be expected for the year ending December 31, 2002. For further information, refer to the Company's audited financial reports for the year ended December 31, 2001.

#### **Principles of consolidation**

The interim financial statements include the accounts of the Company. All significant intercompany balances and transactions are eliminated. The wholly-owned subsidiaries have been inactive since December 31, 1998 and have no assets or liabilities.

#### **Use of estimates**

The preparation of these financial statements requires the use of certain estimates by management in determining the Company's consolidated assets, liabilities, revenues and expenses. Actual results may vary from those estimates.

#### **Cash and cash equivalents**

Cash and cash equivalents consist of highly liquid investments that are readily convertible into cash and have a maturity of three months or less.

#### **Revenue recognition**

The company recognizes sales at the time goods are shipped.

#### **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.

#### **Research and development costs**

Research and development costs are charged to operations when incurred.

#### **Extraordinary income**

Extraordinary income of \$299,870 is derived from the reversal of accounts payable that reached an age beyond the statute of limitations for collection.

#### **Earnings per share**

Basic earnings per share have been calculated by dividing the loss for the six month period of \$1,573,855 (2001: \$2,081,245 loss) by the weighted average number of shares in issue during the period of 34,755,507 (2001: 32,040,060).