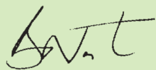
Management's Responsibility for Financial Reporting

The management of the Company is responsible for the preparation of the accompanying consolidated financial statements. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and, where appropriate, include estimates based on careful judgment. Management has determined these amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Financial information contained elsewhere in this annual report is consistent with the consolidated financial statements.

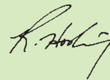
The Company maintains a system of internal accounting and administrative controls that are designed to provide reasonable assurance, at a reasonable cost, that the financial information is accurate and reliable and that the assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board carries out this responsibility through an Audit Committee, which includes four non-management Directors, and meets periodically with management and the external auditors, Ernst & Young LLP. The auditors have unrestricted access to the Audit Committee. The Audit Committee reviews the Company's quarterly and annual consolidated financial statements and recommends their approval by the Board. The Committee also recommends the appointment of the external auditors who are appointed at the Company's Annual Meeting.

The consolidated financial statements have been audited by Ernst & Young LLP, on behalf of the shareholders, in accordance with Canadian and United States generally accepted auditing standards.



Brent Norton, MD, MBA
President and Chief Executive Officer



Ron Hosking, B. COMM., CA,
Vice President and C.F.O.

Report of Independent Auditors

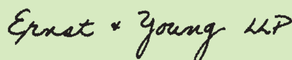
To the Shareholders of *IMI International Medical Innovations Inc.*

We have audited the consolidated balance sheets of *IMI International Medical Innovations Inc.* as at December 31, 2002 and 2001 and the consolidated statements of loss and deficit and cash flows for the year ended December 31, 2002, the 11-month period ended December 31, 2001 and the year ended January 31, 2001. 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 Canadian and United States generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance 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.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the year ended December 31, 2002, the 11-month period ended December 31, 2001 and the year ended January 31, 2001 in accordance with Canadian generally accepted accounting principles.

As described in note 2 to the consolidated financial statements, the Company changed its method of accounting for stock-based compensation in 2002.



Chartered Accountants

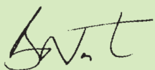
Toronto, Canada,
March 7, 2003

Consolidated Balance Sheets

	As at December 31, 2002 $	As at December 31, 2001 $
ASSETS		
Current		
Cash and cash equivalents	150,451	593,379
Short-term investments	9,961,743	7,357,800
Prepaid expenses and other receivables	237,591	224,519
Investment tax credits receivable	271,000	211,000
Total current assets	10,620,785	8,386,698
Capital assets, net *(note 3)*	191,632	248,552
Acquired technology, net of amortization of $580,291 (December 31, 2001 – $438,549) *(note 4(d)(i))*	566,966	708,708
	11,379,383	9,343,958
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	589,555	358,674
Advance collaboration funding	–	36,588
Total current liabilities	589,555	395,262
Deferred revenue *(note 6(a)(i))*	100,000	–
Total liabilities	689,555	395,262
Commitments *(note 6)*		
Shareholders' equity		
Capital stock *(note 4)*	23,785,884	18,212,490
Warrants *(notes 4(c) and note 6(b)(iv))*	496,000	310,000
Deficit	(13,592,056)	(9,573,794)
Total shareholders' equity	10,689,828	8,948,696
	11,379,383	9,343,958

See accompanying notes

On behalf of the Board:



Director

Director

Consolidated Statements of Loss and Deficit

	Year ended December 31, 2002 $	11-month period ended December 31, 2001 $	Year ended January 31, 2001 $
EXPENSES			
Research and development	2,104,904	2,047,116	1,300,281
General and administration	2,141,207	1,500,434	1,077,028
Amortization	219,466	215,236	93,967
	4,465,577	3,762,786	2,471,276
RECOVERIES AND OTHER INCOME			
Investment tax credits *(note 5)*	189,908	131,000	115,239
Interest	257,407	386,580	522,832
	447,315	517,580	638,071
Net loss for the period	(4,018,262)	(3,245,206)	(1,833,205)
Deficit, beginning of period	(9,573,794)	(6,328,588)	(4,495,383)
Deficit, end of period	(13,592,056)	(9,573,794)	(6,328,588)
Basic and fully diluted loss per share	$ (0.20)	$ (0.17)	$ (0.11)
Weighted average number of common shares outstanding	20,406,733	19,097,390	17,376,342

See accompanying notes

Consolidated Statements of Cash Flows

	Year ended December 31, 2002 $	11-month period ended December 31, 2001 $	Year ended January 31, 2001 $
OPERATING ACTIVITIES			
Net loss for the period	(4,018,262)	(3,245,206)	(1,833,205)
Add items not involving cash			
Amortization	219,466	215,236	93,967
Stock compensation costs included in:			
Research and development expense	81,905	–	–
General and administration expense	36,483	–	–
Loss on sale of capital asset	–	1,139	–
	(3,680,408)	(3,028,831)	(1,739,238)
Net change in non-cash working capital balances related to operations *(note 7)*	130,841	(209,865)	313,389
Cash used in operating activities	(3,549,567)	(3,238,696)	(1,425,849)
INVESTING ACTIVITIES			
Short-term investments	(2,603,943)	642,836	(8,000,636)
Purchase of acquired technology *(note 4(d)(i))*	—	(381,507)	—
Purchase of capital assets	(20,804)	(275,492)	(53,649)
Proceeds on sale of capital asset	—	2,376	—
Cash used in investing activities	(2,624,747)	(11,787)	(8,054,285)
FINANCING ACTIVITIES			
Issuance of capital stock, net	5,731,386	1,278,328	11,303,901
Cash provided by financing activities	5,731,386	1,278,328	11,303,901
Net increase (decrease) in cash and cash equivalents during the period	(442,928)	(1,972,155)	1,823,767
Cash and cash equivalents, beginning of period	593,379	2,565,534	741,767
Cash and cash equivalents, end of period	150,451	593,379	2,565,534
Represented by:			
Cash	148,270	376,190	99,187
Cash equivalents	2,181	217,189	2,466,347
	150,451	593,379	2,565,534

See accompanying notes

Notes to Consolidated Financial Statements

December 31, 2002
(In Canadian dollars, unless otherwise noted)

1. NATURE OF THE COMPANY AND BASIS OF PRESENTATION

IMI International Medical Innovations Inc. (the "Company") operates in a single business segment and is a predictive medicine company dedicated to developing rapid, non-invasive tests for the early detection of life-threatening diseases, particularly cardiovascular disease and cancer. The Company licenses, develops and initiates the commercialization of novel, medical technologies developed by various research institutions throughout the world.

The Company currently owns patents for a test used to measure skin cholesterol and has in-licensed the technologies for tests to detect the presence of a cancer-specific marker for use in colorectal, lung and other cancers. In addition, the Company has licensed a different marker for the detection of prostate cancer, has patents pending for color measurement in biological reactions and has a right of first refusal on certain genomics-related technologies in the predictive medicine field.

In December of 2001, the Company changed its fiscal year end from January 31 to December 31, therefore the consolidated statements of loss and deficit and the consolidated statements of cash flows present the 11-month period ended December 31, 2001.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") consistently applied within the framework of the accounting policies summarized below. With respect to the consolidated financial statements of the Company, the significant differences between Canadian and United States generally accepted accounting principles ("U.S. GAAP") are described and reconciled in note 8.

Basis of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All significant intercompany transactions and balances have been eliminated upon consolidation.

Revenue recognition

License revenue is recognized over the term of the related license.

Foreign currency translation

Foreign operations are considered integrated and are translated using the temporal method. Monetary items are translated using the exchange rate in effect at the year end and non-monetary items are translated at historical exchange rates. Revenue and expenses are translated at the average rate for the year except for amortization of assets, which is translated at the same exchange rates as the assets to which they relate. Exchange gains or losses are included in the determination of net income for the period.

Cash and cash equivalents

Cash equivalents comprise only highly liquid investments that are readily convertible to cash with maturities of less than 90 days when purchased. Cash equivalents at December 31, 2002 and 2001 were comprised of money market funds with average interest rates of 2.6%.

Short-term investments

Short-term investments are carried at the lower of cost and market. Short-term investments at December 31, 2002 and 2001 were comprised of bankers' acceptances with interest rates of 2.8% and 3.9%, respectively. Short-term investments are comprised of highly liquid investments with maturity periods greater than 90 days but less than one year when purchased.

Capital assets

Capital assets are recorded at acquisition cost less accumulated amortization.

The Company provides for amortization on the declining balance basis at rates which are expected to charge operations with the cost of the assets over their estimated useful lives as follows:

Computer equipment	30%
Furniture and equipment	20%
Research instrumentation	30%
Laboratory equipment	20%
Leasehold improvements	straight-line over the term of the lease

Acquired technology

Patents and technology acquired by the Company are recorded at acquisition cost and are amortized on a declining balance basis at 20% per year.

Financial instruments

The carrying values of cash and cash equivalents, short-term investments, other receivables, and accounts payable and accrued liabilities are considered to approximate their respective fair value due to their short term nature.

Research and development and related investment tax credits

Research and development expenditures include related salaries, subcontractor fees, product development expenses including patent costs, clinical trials costs and an allocation of administrative expenses and corporate costs specifically attributable to research and development. Research and development excludes any costs associated with the acquisition of capital assets and acquired technology. Research and development expenditures are charged to expenses as incurred unless management believes a development cost meets the generally accepted criteria for deferral. All development costs incurred to date have been expensed. Advance collaboration funding, which is a reimbursement for specific expenditures, has been applied against research and development.

Investment tax credits earned as a result of incurring qualified scientific research and experimental development expenses are recorded when the amounts are readily determinable. The amounts are recorded as follows:

- for capital assets – as a reduction of the cost of the related asset; and
- for operating expenses – as a recovery within the consolidated statement of loss and deficit.

Income taxes

The Company applies the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using substantively enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. Valuation allowances are provided if it is more likely than not that some or all of the future tax assets will not be realized.

Loss per share

Loss per share has been calculated on the basis of net loss for the period divided by the weighted average number of common shares outstanding during the period. Diluted loss per share reflects the dilution that would occur if outstanding stock options and warrants were exercised or converted into common shares using the treasury stock method. The inclusion of the Company's stock options and warrants in the computation of diluted loss per share would have an anti-dilutive effect on loss per share. Therefore, stock options and warrants have been excluded from the calculation of diluted earnings per share. Consequently, there is no difference between basic loss per share and diluted loss per share.

Use of estimates

The preparation of consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Stock-based compensation

The Company has two stock-based compensation plans, which are described in notes 4(e) and (f). On January 1, 2002, the Company adopted the recommendations in The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3870, "Stock Based Compensation and Other Stock Based Payments" ("Section 3870"). The new recommendations are generally applicable only to awards granted after the date of adoption.

Section 3870 requires that options and other equity instruments issued to non-employees be accounted for using the fair value method of accounting. In addition, it requires that direct awards of stock granted to employees also be accounted for using the fair value method. Section 3870 is effective for fiscal years beginning after January 1, 2002 and applies to stock awards issued after January 1, 2002. Consideration paid on the exercise of stock options and warrants is credited to share capital.

However, pro forma disclosure of net loss and net loss per share is provided as if these awards were accounted for using the fair value method.

The table below presents pro forma net loss and basic and diluted net loss per common share as if stock options granted to employees after January 1, 2002 had been determined based on the fair value method.

Shares issued to employees under the share purchase plan are accounted for as direct awards of stock (note 4(f)). The Company has chosen not to account for all other stock-based awards issued to employees. Shares issued to employees on the exercise of options in exchange for non-recourse loans are accounted for as options.

	Year ended December 31, 2002 $
Net loss as reported	(4,018,262)
Estimated stock-based compensations costs	(156,018)
Pro forma net loss	(4,174,280)
Pro forma basic and diluted net loss per common share	$ (0.21)

3. CAPITAL ASSETS

Capital assets consist of the following:

	December 31, 2002		
	Cost $	Accumulated amortization $	Net book value $
Computer equipment	126,402	87,037	39,365
Furniture and equipment	55,802	34,719	21,083
Research instrumentation	284,312	159,944	124,368
Laboratory equipment	7,306	5,133	2,173
Leasehold improvements	8,705	4,062	4,643
	482,527	290,895	191,632

	December 31, 2001		
	Cost $	Accumulated amortization $	Net book value $
Computer equipment	105,598	70,166	35,432
Furniture and equipment	55,802	29,448	26,354
Research instrumentation	284,312	106,646	177,666
Laboratory equipment	7,306	4,590	2,716
Leasehold improvements	8,705	2,321	6,384
	461,723	213,171	248,552

4. CAPITAL STOCK

(a) Authorized

The authorized capital of the Company consists of an unlimited number of common shares, without nominal or par value, and an unlimited number of preferred shares, issuable in series.

(b) Issued and outstanding shares

Common shares	Number #	Stated value $	Contributed surplus $	Total $
Balance, January 31, 2000	14,745,349	5,559,202	71,054	5,630,256
Issued on conversion of Series I Preferred Shares	545,000	5	–	5
Issued under Special Warrants *(note 4(c))*	3,157,895	11,134,901	–	11,134,901
Issued on exercise of warrants *(note 4(d))*	180,000	150,000	–	150,000
Issued under share purchase plan *(note 4(f))*	6,955	–	–	–
Issued on exercise of options *(note 4(e))*	20,000	19,000	–	19,000
Balance, January 31, 2001	18,655,199	16,863,108	71,054	16,934,162
Issued on exercise of warrants *(note 4(d))*	753,358	1,147,611	–	1,147,611
Issued under share purchase plan *(note 4(f))*	12,087	–	–	–
Issued on exercise of options *(note 4(e))*	144,750	130,717	–	130,717
Balance, December 31, 2001	19,565,394	18,141,436	71,054	18,212,490
Issued on exercise of warrants	4,202	25,000	–	25,000
Expiry of warrants	–	–	5,000	5,000
Issued pursuant to private placement *(note 4(c))*	1,200,000	5,282,196	–	5,282,196
Issuance of stock options *(note 4(e))*	–	–	43,234	43,234
Issued under share purchase plan *(note 4(f))*	9,764	47,219	–	47,219
Issued on exercise of options *(note 4(e))*	377,600	425,790	–	425,790
	21,156,960	23,921,641	119,288	24,040,929
Share purchase loans *(note 4(d)(i))*	(375,000)	(255,045)	–	(255,045)
Balance, December 31, 2002	20,781,960	23,666,596	119,288	23,785,884

(c) Private Placements

(i) Year ended December 31, 2002 transactions

During the year ended December 31, 2002, the Company issued by way of private placement, 1,200,000 common shares at a price of $5.00 per common share for gross proceeds of $6,000,000 less issue costs of $529,405 (net $5,470,595).

In connection with this offering, the Company granted to the agent compensation warrants to purchase up to 120,000 common shares at an exercise price of $5.50 per share, exercisable at any time on or before April 2, 2003. The fair value of the warrants at the date of grant was estimated as $188,400, using the Black-Scholes pricing model. The assumptions used to calculate the fair value of the warrants are as follows: expected volatility of 49.0%, risk-free interest rate of 3.42%, and expected warrant life of 1 year. At December 31, 2002, the 120,000 compensation warrants remain outstanding.

(ii) Year ended January 31, 2001 transactions

During the year ended January 31, 2001, the Company issued, by way of private placement, 3,157,895 Special Warrants at a price of $3.80 per Special Warrant for gross proceeds of $12,000,000 less issue costs of $865,099 (net $11,134,901). Each Special Warrant entitled the holder thereof to acquire one common share and one-half common share purchase warrant. Each common share purchase warrant entitled the holder to acquire one common share at a price of $4.50 per share and expired on May 30, 2001. The agent and sub-agent were granted compensation options to purchase up to an aggregate of 315,790 commons shares under the same terms as the common share purchase warrants. All Special Warrants were exercised during the year ended January 31, 2001 and no common share warrants or compensation options remain outstanding.

(d) Warrants

(i) **Year ended December 31, 2002 transactions**

During the year ended December 31, 2002, the Company issued 10,000 warrants, pursuant to a research collaboration agreement dated October 31, 2000, at an estimated fair value of $2,600. Under the terms of the agreement, the Company granted warrants to purchase up to 50,000 common shares at an exercise price of $4.50, such warrants to be issued in annual increments of 10,000 warrants exercisable immediately and expiring in one year. During each of the 11-month period ended December 31, 2001 and the year ended January 31, 2001 the Company issued 10,000 of these warrants, which expired unexercised on October 31, 2002 and October 31, 2001, respectively.

For purpose of valuation, the Company has applied the Black-Scholes pricing model to determine the estimated fair value of the warrants. The approximate assumptions used to calculate the fair value of the warrants are as follows: expected volatility of 62.0%, risk-free interest rate of 2.96%, and expected warrant life of 1 year.

The Company provided loans to two executive officers of the Company during the year ended December 31, 2002, totaling $165,000, one executive officer during the 11-month period ended December 31, 2001 ($60,030) and two executive officers during the year ended January 31, 1999 ($30,015) in order to exercise options and warrants. The balance of these loans at December 31, 2002 was $255,045 (December 31, 2001 – $90,045). Of the $165,000 in loans issued in 2002, $120,000 is specifically collateralized by 180,000 shares of the Company. The fair value of this collateral as at December 31, 2002 was $540,000. All loans issued in 2002 and 2001 bear interest at 5%. As at December 31, 2002, in accordance with the CICA's Emerging Issues Committee Abstract 132, the amount of all loans outstanding has been deducted from share capital until such time as the loans are repaid.

(ii) **11-month period ended December 31, 2001 transactions**

During the 11-month period ended December 31, 2001, pursuant to a license agreement, the Company granted warrants to purchase up to 75,000 common shares at an exercise price of $4.50 which have an estimated fair value of $108,000. The warrants are exercisable as follows: (i) 37,500 common shares at any time after March 2002 and prior to March 2004, and (ii) 37,500 common shares at any time after March 2003 and prior to March 2004. Pursuant to another license agreement, the Company granted warrants to purchase up to 100,000 common shares at exercise prices from $3.50 to $4.50, which have an estimated fair value of $197,000, and expire in 2006. The fair values have been estimated using the Black-Scholes pricing model.

The technologies acquired through these license agreements relate to the ColorectAlert™ License Agreement and to the Procyon License Agreement (note 6(b)). Total consideration paid for these technologies was $686,507, of which $381,507 was paid in cash and the balance in warrants, with an estimated fair value of $305,000.

During the 11-month period ended December 31, 2001, 753,358 common shares were issued for total proceeds of $1,147,611 in connection with options granted during the years ended January 31, 2001 and 2000 to the agent of the Company's private placements and holders of the purchase warrants.

(iii) **Year ended January 31, 2001 transactions**

During the year ended January 31, 2001, 180,000 common shares were issued for total proceeds of $150,000 in connection with options granted during fiscal 2000 to the agent of the Company's private placements and holders of the purchase warrants and in connection with options granted during fiscal 1998 pursuant to a fiscal advisory agreement.

(e) Options

Prior to May 1, 1998, the Company granted options to its employees, directors and consultants under a stock option plan, of which 270,000 of these options remain outstanding as at December 31, 2002. Under the new 1998 Stock Option Plan, the Company may issue options for up to 3,000,000 common shares. As at December 31, 2002, 1,710,850 options had been issued, of which 1,528,500 remain outstanding, under this Plan and the remaining 1,289,150 are eligible to be issued. The exercise price of each option granted may not be less than the market price of the Company's stock at the time of the grant and no option may have a term exceeding 10 years.

Some options vest over a fixed term and others vest based on performance upon the achievement of certain milestones. A summary of the status of the two types of options are presented below:

Fixed stock options

Fixed stock options vest on an annual basis over a period of up to 5 years. A summary of the status of fixed stock options as at December 31, 2002, December 31, 2001 and January 31, 2001 and changes during the years and 11-month period ended on those dates is presented below.

	December 31, 2002		December 31, 2001		January 31, 2001	
	Number of shares #	Weighted average exercise price $	Number of shares #	Weighted average exercise price $	Number of shares #	Weighted average exercise price $
Outstanding, beginning of period	981,750	2.43	829,000	1.70	613,000	1.16
Granted	714,000	3.59	308,750	3.71	414,000	3.30
Exercised	(377,600)	1.13	(144,750)	0.90	(20,000)	0.95
Expired or forfeited	(7,400)	2.02	(11,250)	3.65	(178,000)	3.63
Outstanding, end of period	1,310,750	3.44	981,750	2.43	829,000	1.70
Options exercisable at period end	764,350		829,400		649,672	

The following table summarizes information about stock options outstanding at December 31, 2002:

Range of exercise prices $	Number outstanding #	Weighted average remaining life (in years)	Weighted average exercise price $	Number exercisable #	Weighted average exercise price $
2.15 – 2.86	536,000	3.60	2.68	340,000	2.62
3.00 – 3.80	301,250	2.74	3.52	241,550	3.54
4.00 – 4.74	453,500	3.57	4.17	182,800	4.39
6.05 – 6.05	20,000	4.43	6.05	–	–
	1,310,750			764,350	

Performance stock options

Performance stock options vest immediately upon the achievement of certain milestones as determined by the board of directors at the time of issuance. The performance stock option milestones include criteria measured by product related goals and corporate goals. Product related goals include: product development, completion of clinical trials, regulatory submissions, regulatory approvals, signing of marketing partners and commercial launch of the Company's products. The corporate goals include: successful investor and public relations activities related to media publications and investor analyst coverage, as well as financial goals including completion of financings and government grants.

A summary of the status of performance stock options as at December 31, 2002, December 31, 2001 and January 31, 2001 and changes during the years and 11-month period ended on those dates, is presented below:

	December 31, 2002		December 31, 2001		January 31, 2001	
	Number of shares #	Weighted average exercise price $	Number of shares #	Weighted average exercise price $	Number of shares #	Weighted average exercise price $
Outstanding, beginning of period	615,250	1.26	560,000	0.99	495,000	0.70
Granted	85,500	3.91	70,250	3.74	80,000	2.88
Expired or forfeited	(213,000)	0.72	(15,000)	3.65	(15,000)	1.50
Outstanding, end of period	487,750	1.96	615,250	1.26	560,000	0.99
Options exercisable at period end	368,075		133,375		39,250	

The following table summarizes information about stock options outstanding at December 31, 2002:

Range of exercise prices $	Number outstanding #	Weighted average remaining life (in years)	Weighted average exercise price $	Number exercisable #	Weighted average exercise price $
0.67 – 0.75	270,000	0.67	0.69	270,000	0.69
2.50 – 3.55	82,750	3.29	2.72	45,975	2.65
4.00 – 4.30	135,000	3.77	4.04	52,100	4.08
	487,750			368,075	

(f) Employee share purchase plan

As a result of ongoing interest by its employees and directors to purchase shares of the Company, the Company implemented a share purchase plan effective March 22, 1999 as amended. Pursuant to the terms of the plan, the Company will match the value of the common shares purchased by its employees or directors by issuing from treasury an equal number of common shares, up to a maximum value of the lesser of $6,750 or 9% of the employee's annual salary. The maximum number of common shares which may be issued by the Company pursuant to the purchase plan is 350,000. Under the plan, the Company issued 9,764 common shares to employees and directors during the year ended December 31, 2002 and 12,087 and 6,955 shares during the 11-month period ended December 31, 2001 and the year ended January 31, 2001, respectively.

5. INCOME TAXES

(a) Significant components of the Company's future tax assets and liabilities are as follows:

	December 31, 2002 $	December 31, 2001 $
Future tax assets		
Federal loss carryforwards	1,531,630	895,093
Ontario loss carryforwards	633,732	502,667
Financing and share issue costs	242,624	218,231
SR&ED expenditures	1,365,816	1,190,912
Capital assets	9,674	–
Future tax assets before valuation allowance	3,783,476	2,806,903
Valuation allowance	(3,783,476)	(2,803,847)
Future tax assets	–	3,056
Future tax liabilities		
Capital assets	–	3,056
Future tax liabilities	–	3,056
Net future tax assets (liabilities)	–	–

No net future tax assets have been recognized in the consolidated financial statements as the realization of the net future tax assets does not meet the more likely than not recognition criteria.

(b) The Company has Federal non-capital losses as at December 31, 2002 which are available to reduce future years' taxable income. The potential income tax benefits associated with these losses have not been recorded in the accounts. The approximate amounts and expiry dates of these non-capital loss carryforwards are as follows:

	$
2005	351,000
2006	832,000
2007	1,062,000
2008	2,099,000
2009	2,580,000
	6,924,000

The Company also has available Ontario tax loss carryforwards of approximately $7,922,000 which begin to expire in 2004.

(c) The Company has available research and development expenditures for income tax purposes which may be carried forward indefinitely to reduce future years' taxable income. The total of such expenditures accumulated to December 31, 2002 is approximately $4,400,000. The potential income tax benefits associated with these expenditures have not been recorded in the accounts.

6. COMMITMENTS

(a) Commercialization agreements

(i) On May 10, 2002 the Company entered into an agreement with McNeil Consumer Healthcare ("McNeil") to market and distribute the Company's test for coronary artery disease in Canada. Pursuant to an amendment to this agreement, dated December 20, 2002, and upon payment to the Company of $100,000, McNeil exercised an option to expand its marketing rights in Canada to include the laboratory field and to extend the territory for the insurance laboratory field to include the United States and Mexico. The amended agreement provides McNeil with exclusive rights, in these fields and in this territory, to the professional skin cholesterol test system and the future version for consumer use, both of which will be jointly developed by McNeil and the Company. The term of the agreement is fifteen years and requires McNeil to purchase the Company's skin cholesterol test and to pay ongoing royalties to the Company on sales, in addition to a series of financial milestone payments of up to $3,300,000, which will be based on McNeil's achievement of specified annual sales levels of the licensed products. The Company may terminate this agreement if certain minimum levels of sales are not met. Since all future royalties and milestone payments under this agreement are based on sales by McNeil, which sales have not commenced, the Company is unable at this time to estimate the aggregate future payments that could be received under this agreement.

(b) Research and collaboration agreements

The Company has acquired or is developing in collaboration with others a number of technologies which will require the Company to make payments upon the successful achievement of certain technological milestones. Additionally, in connection with the development of the technologies, the Company has entered into research agreements whereby a minimum fee will be paid for research and development to be carried out by other parties. The Company is committed, upon the successful achievement of future operating performance milestones, to make further payments of approximately $1,065,000 and to issue up to 20,000 purchase warrants at an exercise price of $4.50 (note 4(d)) to these parties.

(i) Pursuant to agreements (the "ColorectAlert™ License Agreements") dated March 27, 1998, May 1, 1998 and October 23, 2001 between the Company and Dr. A.K.M. Shamsuddin ("ColorectAlert Inventor"), the Company acquired a license, including the three existing United States and Japanese patents, for a technology that detects a carbohydrate marker associated with cancerous and pre-cancerous conditions ("ColorectAlert™"). Pursuant to the terms of the agreements, the Company is required to make payments upon achieving certain research and development milestones as well as royalty payments based on revenues from sales of this technology. As at December 31, 2002, the Company has made milestone payments under the ColorectAlert™ License Agreements of approximately $328,000. Future milestone payments, upon completion of specific milestones, could amount to as much as $165,000. In addition, the Company granted warrants to purchase up to 100,000 common shares at exercise prices from $3.50 to $4.50 per share to the ColorectAlert™ Inventor. The agreements do not provide for a fixed termination date, and may only be terminated by the parties in the event of a material breach by the other party. See note 4(d)(i).

(ii) On June 19, 2001, the Company entered into an exclusive agreement with Diagnostic Chemicals Limited ("DCL") to manufacture and supply the Company with Cholesterol 1,2,3™ test kits for the U.S. and Canada. The term of the DCL agreement is five years unless earlier terminated by either party upon the material breach by the other party or by the Company within one hundred and eighty days notice or by DCL within twelve months notice.

(iii) The Company entered into an agreement with Procyon Biopharma Inc. ("Procyon") dated March 19, 2001, as amended (the "Procyon License Agreement"), whereby the Company has the right to complete the development, clinical trials, and regulatory submission for the technology and is entitled to develop, manufacture, market and distribute the ColoPath™ technology exclusively on a global basis. Pursuant to the terms of the Procyon License Agreement, all new patents will be owned by the Company. Procyon is entitled to payments based on the completion of certain research and development milestones as well as a royalty payment based on sales of all mucous-based colorectal cancer tests. As at December 31, 2002 the Company has made milestone payments under the Procyon License Agreement of $125,000. Future milestone payments, upon completion of specific milestones, could amount to as much as $225,000. The Procyon License Agreement does not have a fixed termination date, and it may be terminated upon written agreement of the parties, or by December 31, 2003, if the Company has not at that time engaged in any clinical work or product development in connection with the research and development of ColorectAlert™ or ColoPath™ or met minimum levels of sales of these products. In addition, the Company granted to Procyon warrants to purchase up to 75,000 common shares at an exercise price of $4.50 per share in connection with this agreement. See note 4(d)(i).

(iv) The Company has a research alliance with McMaster University ("McMaster"). This research service agreement, dated October 31, 2000, requires the Company to provide research and development funding to McMaster, in an amount of $120,000 per year in support of the development of gene-based cancer products. The Company also has the right under this agreement for the use of laboratory facilities at McMaster. As at December 31, 2002, the Company has paid $270,000 to McMaster under this agreement. The Company has granted or will grant warrants to purchase up to 10,000 shares per year, at an exercise price of $4.50 per share, to McMaster under this agreement. This agreement has a termination date of October 31, 2005, and may be terminated earlier by the Company upon six months notice.

(v) The Company entered into an agreement with Dr. S. Hakky dated August 30, 2000, as amended (the "Hakky License Agreement"), whereby the Company assumes responsibility for the development, clinical trials, and regulatory submission for the technology and is entitled to develop, manufacture, market and distribute this technology exclusively on a worldwide basis. Pursuant to the terms of the Hakky License Agreement, all new patents will be owned by the Company. Dr. Hakky is entitled to payments based on the completion of certain research and development milestones as well as a royalty payment based on sales of the prostate cancer test. As at December 31, 2002, the Company has made milestone payments under the Hakky License Agreement of approximately $52,725. Future milestone payments, upon completion of certain milestones, could amount to as much as $135,000. The Hakky License Agreement does not have a fixed termination date, and may be terminated by either party upon mutual agreement.

(vi) On January 20, 2000, the Company entered into an agreement with Parke-Davis, then a division of Warner-Lambert Company and which is now a division of Pfizer. Under the terms of the agreement, Parke-Davis will use the Company's Cholesterol 1,2,3™ test systems to monitor the effects of its new investigational drug directed at the treatment of cardiovascular disease. This international Phase II clinical trial is being financed by Parke-Davis.

(vii) On May 10, 1999 the Company entered into an agreement with X-Rite, Incorporated ("X-Rite") to develop and supply the Company with a hand-held instrument and related software for Cholesterol 1,2,3™, for use in a professional setting. Pursuant to the terms of the X-Rite Agreement, the Company has agreed to purchase all of the Company's worldwide requirements for colour measuring devices and related software for use by the Company in marketing and selling Cholesterol 1,2,3™ Systems in point-of-care applications in a professional setting from X-Rite. The term of the X-Rite Agreement is six years unless earlier terminated by either party upon the material breach by the other party or, at the option of X-Rite, if a certain minimum number of X-Rite instruments are not purchased. Further, under specific conditions, the Company may be required to make certain payments to X-Rite if less than a minimum number of X-Rite instruments have been purchased by the Company during a specified period following FDA clearance of Cholesterol 1,2,3™. As at December 31, 2002, other than for purchases of X-Rite instruments in the ordinary course of business, the Company has not made any such payments to X-Rite.

(c) Operating leases

The Company has future minimum annual lease payments under operating leases for its office premises as follows:

	$
2003	75,000
2004	78,000
2005	31,000
	184,000

7. CONSOLIDATED STATEMENTS OF CASH FLOWS

Changes in non-cash working capital balances related to operations comprise:

	Year ended December 31, 2002 $	11-month period ended December 31, 2001 $	Year ended January 31, 2001 $
Prepaid expenses and other receivables	(103,452)	(66,935)	(84,470)
Investment tax credits receivable	(60,000)	(131,000)	252,000
Accounts payable and accrued liabilities	230,881	7,070	90,271
Advance collaboration funding	(36,588)	(19,000)	55,588
Deferred revenue	100,000	–	–
	130,841	(209,865)	313,389

Excluded from the consolidated statement of cash flows for the year ended December 31, 2002 is the issuance of compensation options issued in connection with the private placement of shares of $188,400, the issuance of shares for consideration of share purchase loans of $165,000 as described in note 4 (d)(i) and the issuance of warrants paid as consideration for services of $2,600 as described in notes 4(c) and 4(d)(i).

For the period ended December 31, 2001 excluded is the issuance of warrants paid as consideration in acquiring certain acquired technology of $305,000 and services of $5,000.

Included in accounts payable and accrued liabilities for the year ended January 31, 2001 is a capital asset acquisition of $84,782 which has not been included in the consolidated statements of cash flows. This amount has been presented as a purchase of capital assets during the 11-month period ended December 31, 2001.

8. RECONCILIATION OF CANADIAN TO UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The Company prepares its consolidated financial statements in accordance with Canadian GAAP, which, as applied in these consolidated financial statements, conforms in all material respects to U.S. GAAP, except as follows:

If U.S. GAAP were followed, the effects on the consolidated statements of loss would be as follows:

	Year ended December 31, 2002 $	11-month period ended December 31, 2001 $	Year ended January 31, 2001 $
		(Canadian dollars)	
Net loss for the year (Canadian GAAP)	(4,018,262)	(3,245,206)	(1,833,205)
Adjustments			
Amortization of acquired technology (a)	141,742	126,138	37,085
Acquired technology expense (a)	–	(686,507)	–
Fixed stock options granted to employees (b)	(5,625)	(7,500)	(7,500)
Fixed stock options granted to non-employees (c)	(57,521)	(48,923)	(53,122)
Performance stock options (d)	(931,474)	(254,838)	(3,564,540)
Share purchase plan (e)	–	(45,744)	(29,472)
Net loss and comprehensive loss for the period (U.S. GAAP) (f)	(4,871,140)	(4,162,580)	(5,450,754)
Basic and fully diluted loss per share (U.S. GAAP)	$(0.24)	$(0.22)	$(0.31)
Weighted average number of shares outstanding Basic and diluted	20,406,733	19,097,390	17,376,342
Excluded from the diluted weighted average number of shares outstanding are			
Employee stock options	–	533,982	478,031
Warrants	–	4,188	–

Basic loss per share is determined using the weighted average number of shares outstanding during the periods. As a result of the net losses for the year ended December 31, 2002, the period ended December 31, 2001 and year ended January 31, 2001, the potential dilutive effect of the exercise of stock options and warrants was anti-dilutive, therefore have not been included in the calculation of fully diluted loss per share.

Consolidated balance sheet items, which would vary under U.S. GAAP, are as follows:

	December 31, 2002 $	December 31, 2001 $	January 31, 2001 $
		(Canadian dollars)	
ASSETS			
Acquired technology, net (a)	–	–	–
	10,812,417	8,635,250	10,949,209
SHAREHOLDERS' EQUITY			
Share capital	28,399,039	22,850,029	21,521,457
Additional paid-in capital	1,705,634	724,250	423,812
Warrants	496,000	310,000	–
Deferred compensation	(65,091)	(102,711)	(109,033)
Deficit accumulated during the development stage	(20,412,720)	(15,541,580)	(11,379,000)
	10,122,862	8,239,988	10,457,236

If U.S. GAAP were followed, the effects on the consolidated statements of cash flows would be as follows:

	Year ended December 31, 2002 $	11-month period ended December 31, 2001 $	Year ended January 31, 2001 $
		(Canadian dollars)	
OPERATING ACTIVITIES			
Balance under Canadian GAAP	(3,549,567)	(3,238,696)	(1,425,849)
Acquired technology	–	(381,507)	–
Balance under U.S. GAAP	(3,549,567)	(3,620,203)	(1,425,849)
INVESTING ACTIVITIES			
Balance under Canadian GAAP	(2,624,747)	(11,787)	(8,054,285)
Acquired technology	–	381,507	–
Balance under U.S. GAAP	(2,624,747)	369,720	(8,054,285)

FINANCING ACTIVITIES

Balances under Canadian GAAP of $5,731,386 for the year ended December 31, 2002, $1,278,328 for the 11-month period ended December 31, 2001 and $11,303,901 for the year ended January 31, 2001 remain unchanged for U.S. GAAP purposes.

Since inception, the Company has not had significant revenue from operations. Accordingly, under Statement of Financial Accounting Standard ("FAS") No. 7, "Accounting and Reporting by Development Stage Enterprise" ("FAS 7"), the Company is considered to be a development stage enterprise under U.S. GAAP. FAS 7 requires development stage enterprises to disclose additional financial statement information, which is presented in note 8(h).

In accordance with Section 3870 of the CICA Handbook, under Canadian GAAP, stock options and warrants awarded to non-employees in 2002 are accounted for using the fair value method. Under U.S. GAAP, the method of accounting for stock options is dependent upon who the option is issued to and whether the option is fixed or based on certain performance criteria. The Company follows Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees" ("APB 25") for awards issued to employees and FAS No. 123, "Accounting for Stock Based Compensation" ("FAS 123") for awards issued to non-employees. Accounting differences under Canadian GAAP and U.S. GAAP for stock options are described below.

(a) Acquired technology

Under U.S. GAAP, the Company's acquired technology, which is primarily comprised of patents and know-how which require regulatory approval to be commercialized and which has no proven alternative future uses, is considered in-process research and development and is immediately expensed upon acquisition in accordance with FAS No. 2, "Accounting for Research and Development Costs". The Company's acquired technology does not have an alternative future use given its specialized nature and limited alternative use. Under Canadian GAAP, the acquired technology is considered to be a development asset which is capitalized and amortized over its expected useful life.

(b) Fixed stock options granted to employees

APB 25 requires the Company to recognize compensation expense relating to the intrinsic value of the options when the market price of the underlying stock is greater than the exercise price of the Company's employee stock options on the grant date. Under Canadian GAAP, in accordance with Section 3870, the Company is not required to record compensation expense for stock options granted to employees.

(c) Fixed stock options granted to non-employees

During the course of developing the Company's products, stock options were granted to consultants, researchers and advisors who are classified as non-employees. Stock options issued to non-employees are accounted for at fair value under the provisions of FAS 123. For options granted on or after January 1, 2002, this treatment is consistent with the provisions of Section 3870. However, a Canadian-U.S. GAAP difference still arises on the amortization of fixed options granted to non-employees prior to January 1, 2002 as no compensation is recorded under Canadian GAAP for stock options granted to non-employees prior to January 1, 2002.

Fair value is determined using the Black-Scholes pricing mode, using assumptions as disclosed in note 8(g).

(d) Performance stock options

The Company granted performance stock options to employees that vest upon the achievement of certain milestones. In accordance with APB 25, such stock options are accounted for using the variable method of accounting until the performance milestone is achieved. Under variable accounting, if it is likely that the milestone will be met, compensation associated is recalculated at each reporting date based on the current intrinsic value and amortized over the remaining vesting period. However, a Canadian-U.S. GAAP difference still arises on the amortization of performance options granted to non-employees prior to January 1, 2002 as no compensation is recorded under Canadian GAAP for stock options granted to non-employees prior to January 1, 2002.

During the year ended January 31, 1999, the Company cancelled 1,104,000 performance stock options and issued 1,104,000 Series 1 Preferred Shares ("Preferred Shares"). The Preferred Shares, which were issued to the same employees who held the options, are convertible into common shares of the Company under terms which were consistent with the original options. For U.S. GAAP accounting purposes, the Company has accounted for these Preferred Shares as performance stock options.

(e) Share purchase plan

As discussed in note 4(e), effective March 22, 1999, the Company implemented a share purchase plan whereby the Company will match the value of the common shares purchased by its employees or directors by issuing from treasury an equal number of common shares. For purposes of U.S. GAAP, the fair value of common shares issued from treasury under the share purchase plan, as determined by the quoted market price, have been recorded as compensation expense. Under Canadian GAAP, the fair value of shares issued under the share purchase plan on or after January 1, 2002, has been recorded as compensation expense as they represent direct awards of stock.

(f) Comprehensive income

FAS 130, "Reporting Comprehensive Income", establishes standards for the reporting and display of comprehensive income and its components in general purpose financial statements. Comprehensive income is defined as the change in net assets of a business enterprise during a period from transactions and other events and circumstances from non-owner sources, and includes all changes in equity during a period. For the periods presented, the Company did not have any material transaction that would otherwise have had an impact on comprehensive income. As such, loss for the period under U.S. GAAP is consistent with comprehensive income.

(g) FAS 123 pro forma disclosures

FAS 123 requires pro forma disclosures of net loss and loss per share, as if the fair value based method, as opposed to the intrinsic value based method, of accounting for employee stock options had been applied.

The following table presents the Company's net loss and loss per share on a pro forma basis using the fair value method as determined by using the Black-Scholes option-pricing model:

	Year ended December 31, 2002 $	11-month period ended December 31, 2001 $	Year ended January 31, 2001 $
		(Canadian dollars)	
Net loss for the period			
U.S GAAP – Reported	(4,871,140)	(4,162,580)	(5,450,754)
Adjustment for FAS 123	(439,608)	(284,321)	(172,450)
Net loss under U.S. GAAP – Pro forma	(5,310,748)	(4,446,901)	(5,623,204)
Basic and fully diluted loss per share (U.S. GAAP)			
Reported	$ (0.24)	$ (0.22)	$ (0.31)
Pro forma	$ (0.26)	$ (0.23)	$ (0.32)

The assumptions used to calculate the fair value of stock compensation expense using the Black-Scholes pricing model are approximately as follows:

	Year ended December 31, 2002 $	11-month period ended December 31, 2001 $	Year ended January 31, 2001 $
Expected volatility	55.5%	59.1%	62.3%
Risk-free interest rate	4.56%	5.14%	6.19%
Expected option life	5 years	5 years	5 years

Dividend yield assumption used for all periods presented was nil.

The Black-Scholes model, used by the Company to calculate option values, as well as other accepted option valuation models, were developed to estimate fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differ from the Company's stock option awards. These models also require highly subjective assumptions, including future stock price volatility and expected time until exercise, which greatly affect the calculated values. Accordingly, management believes that these models do not necessarily provide a reliable single measure of the fair value of the Company's stock option awards.

(h) Development stage disclosures

FAS 7 requires development stage companies to disclose, in addition to the same basic financial statements as presented in these consolidated financial statements, the following additional information disclosures are required:

(i) Consolidated statement of loss

	Cumulative from inception November 9, 1992 $
	(Canadian dollars)
EXPENSES	
Research and development	8,675,741
General and administration	6,696,463
Acquired technology	1,147,257
Stock option compensation	6,372,086
Amortization	306,444
	23,197,991
RECOVERIES AND OTHER INCOME	
Investment tax credits	1,447,710
Interest	1,273,741
Government grants	63,820
	2,785,271
Cumulative net loss from inception	(20,412,720)

(ii) Consolidated statement of cash flows:

	Cumulative from inception November 9, 1992 $
	(Canadian dollars)
Cash used in operating activities	(12,499,727)
Cash used in investing activities	(11,296,098)
Cash provided by financing activities	23,946,276
Cumulative increase in cash and cash equivalents from inception	150,451

(iii) The following represents the Company's cumulative statement of shareholders' equity determined in accordance with U.S. GAAP equity from inception:

	Series I Preferred stock		Common stock		Additional paid-in capital	Warrants	Deferred compensation	Deficit incurred in the development stage	Total
	#	$	#	$	$	$	$	$	$
	(000's)		(000's)						
Balance, November 2, 1992	–	–	–	–	–	–	–	–	–
Net loss for the period	–	–	–	–	–	–	–	(374,703)	(374,703)
Issued for cash	–	–	6,420	255,004	–	–	–	–	255,004
Balance, January 31, 1994	–	–	6,420	255,004	–	–	–	(374,703)	(119,699)
Net loss for the period	–	–	–	–	–	–	–	(174,296)	(174,296)
Issued to extinguish a liability	–	–	720	240,000	–	–	–	–	240,000
Redemption	–	–	(2,337)	(130,695)	71,054	–	–	–	(59,641)
Balance, January 31, 1995	–	–	4,803	364,309	71,054	–	–	(548,999)	(113,636)
Net loss for the period	–	–	–	–	–	–	–	(325,193)	(325,193)
Issued for cash	–	–	528	264,000	–	–	–	–	264,000
Issued on exercise of warrants	–	–	450	150,000	–	–	–	–	150,000
Issued for services	–	–	90	45,000	–	–	–	–	45,000
Issuance of stock options	–	–	–	–	2,420	–	(2,420)	–	–
Amortization of deferred compensation	–	–	–	–	–	–	202	–	202
Balance, January 31, 1996	–	–	5,871	823,309	73,474	–	(2,218)	(874,192)	20,373
Net loss for the period	–	–	–	–	–	–	–	(497,576)	(497,576)
Issued for cash	–	–	839	559,500	–	–	–	–	559,500
Issued on exercise of warrants	–	–	300	100,000	–	–	–	–	100,000
Issued for services	–	–	30	15,000	–	–	–	–	15,000
Issuance of stock options	–	–	–	–	23,736	–	(23,736)	–	–
Amortization of deferred compensation	–	–	–	–	–	–	3,217	–	3,217
Balance, January 31, 1997	–	–	7,040	1,497,809	97,210	–	(22,737)	(1,371,768)	200,514
Net loss for the period	–	–	–	–	–	–	–	(809,216)	(809,216)
Issued on exercise of warrants	–	–	502	205,000	–	–	–	–	205,000
Issued on conversion of debenture	–	–	2,000	500,000	–	–	–	–	500,000
Issued for cash	–	–	2,267	1,478,942	–	–	–	–	1,478,942
Issued for exercise of options	–	–	72	54,000	(53,880)	–	–	–	120
Issuance of stock options	–	–	–	–	53,880	–	(53,880)	–	–
Amortization of deferred compensation	–	–	–	–	–	–	65,144	–	65,144
Balance, January 31, 1998	–	–	11,881	3,735,751	97,210	–	(11,473)	(2,180,984)	1,640,504
Net loss for the period	–	–	–	–	–	–	–	(1,331,199)	(1,331,199)
Issued on exercise of warrants	–	–	269	179,001	–	–	–	–	179,001
Issued on purchase of technology	–	–	134	235,000	–	–	–	–	235,000
Issued for cash	1,104	11	–	–	–	–	–	–	11
Issued on exercise of options	–	–	132	78,480	(1,440)	–	–	–	77,040
Issuance of stock options	–	–	–	–	47,460	–	(47,460)	–	–
Amortization of deferred compensation	–	–	–	–	–	–	48,905	–	48,905
Balance, January 31, 1999	1,104	11	12,416	4,228,232	143,230	–	(10,028)	(3,512,183)	849,262

	Series I Preferred stock		Common stock		Additional paid-in capital	Warrants	Deferred compensation	Deficit incurred in the development stage	Total
	#	$	#	$	$	$	$	$	$
	(000's)		(000's)						
Balance, January 31, 1999	1,104	11	12,416	4,228,232	143,230	–	(10,028)	(3,512,183)	849,262
Net loss for the period	–	–	–	–	–	–	–	(2,416,063)	(2,416,063)
Conversion of Series I Preferred Shares	(559)	(6)	–	–	–	–	–	–	(6)
Issued on conversion of Series I Preferred shares	–	–	559	932,436	–	–	(932,430)	–	6
Issued under Special Warrants	–	–	1,200	1,034,159	–	–	–	–	1,034,159
Issued on exercise of warrants	–	–	342	256,500	–	–	–	–	256,500
Issued under share purchase plan *(note 4(e))*	–	–	56	112,059	–	–	–	–	112,059
Issued on exercise of option	–	–	172	119,853	(24,228)	–	–	–	95,625
Issuance of stock option	–	–	–	–	117,600	–	(117,600)	–	–
Amortization of deferred compensation	–	–	–	–	–	–	1,017,913	–	1,017,913
Balance, January 31, 2000	545	5	14,745	6,683,239	236,602	–	(42,145)	(5,928,246)	949,455
Net loss for the period	–	–	–	–	–	–	–	(5,450,754)	(5,450,754)
Conversion of Series I Preferred Shares	(545)	(5)	–	–	–	–	–	–	(5)
Issued on conversion of Series I Preferred shares	–	–	545	3,504,845	–	–	(3,504,840)	–	5
Issued under Special Warrants *(note 4(c))*	–	–	3,158	11,134,901	–	–	–	–	11,134,901
Issued on exercise of warrants *(note 4(d))*	–	–	180	150,000	–	–	–	–	150,000
Issued under share purchase plan *(note 4(e))*	–	–	7	29,472	–	–	–	–	29,472
Issued on exercise of options *(note 4(e))*	–	–	20	19,000	–	–	–	–	19,000
Issuance of stock options	–	–	–	–	187,210	–	(187,210)	–	–
Amortization of deferred compensation	–	–	–	–	–	–	3,625,162	–	3,625,162
Balance, January 31, 2001	–	–	18,655	21,521,457	423,812	–	(109,033)	(11,379,000)	10,457,236
Net loss for the period	–	–	–	–	–	–	–	(4,162,580)	(4,162,580)
Issued on exercise of warrants *(note 4(d))*	–	–	753	1,147,611	–	–	–	–	1,147,611
Issued under share purchase plan *(note 4(e))*	–	–	12	45,744	–	–	–	–	45,744
Issued on exercise of options *(note 4(e))*	–	–	145	135,217	(4,500)	–	–	–	130,717
Issued on purchase of technology *(note 4(d)(i))*	–	–	–	–	–	305,000	–	–	305,000
Issued for services *(note 4(d)(i))*	–	–	–	–	–	5,000	–	–	5,000
Issuance of stock options	–	–	–	–	304,938	–	(304,938)	–	–
Amortization of deferred compensation	–	–	–	–	–	–	311,260	–	311,260
Balance, December 31, 2001	–	–	19,565	22,850,029	724,250	310,000	(102,711)	(15,541,580)	8,239,988

	Series I Preferred stock		Common stock		Additional paid-in capital	Warrants	Deferred compensation	Deficit incurred in the development stage	Total
	#	$	#	$	$	$	$	$	$
	(000's)		(000's)						
Balance, December 31, 2001	–	–	19,565	22,850,029	724,250	310,000	(102,711)	(15,541,580)	8,239,988
Net loss for the period	–	–	–	–	–	–	–	(4,871,140)	(4,871,140)
Issued on exercise of warrants *(note 4(d))*	–	–	4	25,000	–	–	–	–	25,000
Issued under share purchase plan *(note 4(e))*	–	–	10	47,219	–	–	–	–	47,219
Issued pursuant to private placement *(note 4(c))*	–	–	1,200	5,282,196	–	188,400	–	–	5,470,596
Issued on exercise of options *(note 4(e))*	–	–	378	449,640	(23,850)	–	–	–	425,790
Issued for services *(note 4(d)(i))*	–	–	–	–	–	(2,400)	–	–	(2,400)
Issuance of stock options	–	–	–	–	1,005,234	–	(68,760)	–	936,474
Share purchase loans	–	–	(375)	(255,045)	–	–	–	–	(255,045)
Amortization of deferred compensation	–	–	–	–	–	–	106,380	–	106,380
Balance, December 31, 2002	–	–	20,782	28,399,039	1,705,634	496,000	(65,091)	(20,412,720)	10,122,862

Since the Company's inception on November 2, 1992 up until the year ended January 31, 1994, in lieu of repaying liabilities of $255,004, the Company issued 6,420,000 common shares. The shares were issued to the original founder of the Company.

During the year ended January 31, 1995, the Company issued 720,000 common shares for aggregate cash proceeds of $240,000 and redeemed 2,337,000 common shares for total cash consideration of $59,641. The paid up capital amount of the shares redeemed was $130,695, thus resulting in a contributed surplus of $71,054.

During the year ended January 31, 1996, the Company issued in total 1,068,000 common shares. Of the total issuance, 528,000 of these common shares were issued for cash consideration of $264,000 and 90,000 were issued for management services. The fair value of the services received was approximately $45,000 and has been expensed. In addition to the above issuance, the Company also issued 450,000 common shares upon the exercise of warrants at an exercise price of $0.33 per warrant for total proceeds of $150,000.

During the year ended January 31, 1997, the Company issued in total 1,169,250 common shares. Of the total issuance, 839,250 were issued for cash consideration of $559,500 and 30,000 were issued for management services. The fair value of the services received was approximately $15,000 and has been expensed. During this period, the Company also issued 300,000 common shares for total proceeds of $100,000 in connection with warrants exercised. The exercise price of the warrants was $0.33 per warrant.

During the year ended January 31, 1998, in June 1997, in connection with discussions to initiate a public offering of its common shares, the Company obtained bridge financing in the form of a $500,000 convertible debenture. Subsequently, on October 31, 1997 upon closing of the initial public offering, the debenture was converted into 2,000,000 common shares of the Company. On October 31, 1997, pursuant to a prospectus filed with the Ontario Securities Commission, the Company issued 2,266,667 common shares for net proceeds of $1,478,942 after deducting agents' commissions, fees and other costs associated with the offering totaling $221,059. The Company also granted the agent of the initial public offering options to purchase an additional 342,000 common shares at a price of $0.75 per share. In addition, during the year, 72,000 options were exercised at a price of $0.00167 and 360,000 options expired upon termination of employment. In connection with the Company's warrants, 502,000 common shares were issued for total proceeds of $205,000 at an average exercise price of $0.41 per warrant.

During the year ended January 31, 1999, 268,372 warrants were exercised at a price of $0.667 and 128,750 warrants expired. Pursuant to the exercise of 45,000 of these warrants, share purchase demand loans of $30,015 were made to two executive officers of the Company, bear interest at 5% per annum and are collateralized by 45,000 common shares. The Company also issued 132,000 shares related to the exercise of stock options at an average exercise price of $0.58. In addition during the year, the Company created Series I Preferred Shares which are non-voting, carry no dividend rights, are convertible at the holder's option prior to October 31, 2002 on a one for one basis into common shares upon achievement of certain predetermined corporate milestones and are redeemable by the Company after October 31, 2002 for $0.00001 per share. The Company issued 1,104,000 Series I Preferred Shares in replacement of stock options with the same rights and privileges. The Company has considered these Series I Preferred Shares as equivalent to performance based stock options and accordingly has recorded a compensation expense in the period when the performance milestones were met.

On May 27, 1998, the Company purchased an additional patent relating to a test to measure skin cholesterol, for a combination of cash and 14,286 shares valued at $1.75 per share for total consideration of $50,000. In addition, in connection with the purchase of the remaining 11% of 2860601 Canada Inc. ("2860601") that it did not already own, the Company paid a combination of cash and 120,000 common shares valued at $1.75 per share for a total consideration of $260,750. As the only significant asset held by 2860601 was technology, the entire value of the incremental purchase has been ascribed to acquired technology.

During the year ended January 31, 2000, the Company issued 342,000 common shares for total proceeds of $256,500 in connection with options granted in October 1997 to the agent of the Company's initial public offering. The Company issued an aggregate of 55,774 common shares to employees under the Employee Share Purchase Plan for no additional consideration, which were valued at $112,059 and included as a compensation expense. In addition, upon the successful achievement of performance milestones, the Company issued 559,000 common shares to employees for no additional consideration pursuant to the conversion of previously issued Series I Preferred Shares. Subsequent to January 31, 2000, on March 17, 2000, the remaining milestones relating to the Series I Preferred Shares were achieved and the 545,000 preferred shares were converted into common shares for no additional consideration. For accounting purposes, a compensation expense of $932,430 and $2,896,740 was recorded in each respective period. On September 30, 1999, pursuant to a prospectus filed with the Ontario Securities Commission, the Company issued 1,200,000 common shares and 600,000 common share purchase warrants for net proceeds of $1,034,159 after deducting agents' commissions, fees and other costs associated with the offering totaling $165,841. Each common share purchase warrant entitled the holder to acquire one common share at a price of $1.25 per share. The Company also granted the agent and sub-agent compensation options to purchase up to 120,000 common shares at an exercise price of $1.25. Total stock options exercised during the year was approximately 172,000 for $119,853, of which $95,625 was received in cash.

For the years ended December 31, 2002 and January 31, 2001 and the 11-month period ended December 31, 2001 see note 4 for a description of the Canadian-U.S. GAAP differences.

(iv) Share capital

	Cumulative from inception November 9, 1992	
	Number of shares #	$
		(Canadian dollars)
Shares issued for cash	11,973,917	8,079,642
Shares issued for services	124,202	85,000
Shares issued on purchase of technology	134,286	235,000
Exercise of stock options	471,850	601,145
Issued under the share purchase plan for no cash consideration	84,580	234,494
Warrants exercised for cash	2,868,230	2,188,112
Special warrants exercised for cash	4,357,895	12,169,060
Shares redeemed for cash	(2,337,000)	(130,695)
Shares issued on conversion of debenture	2,000,000	500,000
Shares issued on conversion of Series I Preferred Shares	1,104,000	4,437,281
	20,781,960	28,399,039

(i) Additional consolidated balance sheet information

Accounts payable and accrued liabilities consisted primarily of accruals related to clinical trials of $211,886 (December 31, 2001 – $204,739; January 31, 2001 – $96,092) and amounts owing to trade creditors of $276,303 (December 31, 2001 – $116,959; January 31, 2001 – $162,657).

In accordance with Canadian GAAP, the Company's cash equivalents and short-term investments are carried at the lower of cost or market based on quoted market prices. Under U.S. GAAP, these investments would have been classified as held-to-maturity, and would be recorded at amortized cost. There is no significant difference between cost under Canadian GAAP and amortized cost for U.S. GAAP. Accrued interest is included in the short-term investments balance, which in total approximates fair value.

(j) Recent accounting developments

In August 2001, the Financial Accounting Standards Board (the "FASB") issued FAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("FAS 144"), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. FAS 144 applies to all long-lived assets, including discontinued operations, and develops one accounting model for long-lived assets to be disposed of by sale. This Statement supersedes FAS 121, "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to be Disposed Of" and the accounting and reporting provisions of APB 30, "Reporting the Results of Operation – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" ("APB 30") for the disposal of a segment of a business. FAS 144 was adopted effective January 1, 2002 and there was no impact to the Company.

In August 2001, the FASB issued FAS No. 143, "Accounting for Asset Retirement Obligations" ("FAS 143") which is effective for financial statements issued for fiscal years beginning after June 15, 2002. FAS 143 addresses the recognition and remeasurement of obligations associated with the retirement of a tangible long-lived asset. The Company has not yet determined the effect that the adoption of FAS 143 will have on the business, results of operations, and financial condition of the Company.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146") which addresses significant issues regarding the recognition, measurement and reporting of costs that are associated with exit and disposal activities initiated after December 31, 2002, including restructuring activities that are currently accounted for pursuant to the guidance that the Emerging Issues Task Force ("EITF") has set forth in EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)." SFAS 146 revises the accounting for certain lease termination costs and employee termination benefits, which are generally recognized in connection with restructuring activities. The adoption of SFAS 146 is not expected to materially affect the consolidated financial statements.

In November 2002, FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("Interpretation 45"). Interpretation 45 requires disclosure by a guarantor regarding its obligations under certain guarantees it has issued, effective December 31, 2002. As at December 31, 2002, the Company had no guarantees requiring disclosure. Interpretation 45 also requires recognition of a liability for the fair value of its obligations under guarantees issued after December 31, 2002. The Company is currently reviewing this standard, but has not yet fully determined the impact of the recognition of its obligations under future guarantees on its reported U.S. GAAP information.