



Why Opportunity Now

2003 Third Quarter Results

Dear Fellow Shareholders:

During the third quarter of 2003 we achieved several of our initial commercial goals, including the signing of Warnex's first customers and the conclusion of strong marketing partnerships in North America. These achievements contributed to a momentum that is growing by the day within the Company, progress that will add new customers and widen the usage of our proprietary technology platform, Genevision™.

The first Genevision customer, Cardinal Meat Specialists Ltd., signed a five-year agreement to purchase assays for *E.coli* O157, *Staphylococcus aureus*, *Salmonella* and *Listeria monocytogenes*. This sale was followed by an agreement with French security firm Axytrans Inc. for the use of our Molecular Bar Codes in the tracking and identifying of money stolen during transit.

As we expand commercially, we intend to complement our own sales force with strategic partnerships. Two such relationships were recently put into effect. The first is a marketing agreement with Med-Ox Diagnostics Inc. Under the terms of the agreement, Med-Ox's sales force will introduce the Genevision food safety system to its national client base. In October, we entered into a collaborative agreement with Cincinnati, Ohio-based Q-Laboratories, Inc. to accelerate the process of receiving U.S. regulatory clearance by validating multiple Genevision pathogen detection tests, including one for *E-coli* 0157. Once the Association of Analytical Communities (AOAC) approves the assays, Q-Laboratories intends to offer this technology as part of its quality control testing program to its food service clients.

In addition to these enhancements to our sales and marketing resources, we have strengthened our scientific leadership. Subsequent to the quarter we appointed Dr. Yvan P. Côté as Vice President, Research and Development and announced the formation of a Scientific Advisory Board that includes Dr. Pierre Belhumeur from the Department of Microbiology and Immunology at the University of Montreal and Dr. Susan Harlander, President of BIOrational Consultants, a U.S. consulting firm specializing in food and agricultural biotechnology issues.

Warnex's financial results are beginning to demonstrate the value of our efforts on all these fronts. Consolidated revenue for the third quarter was \$1.7 million, a 6% increase from \$1.6 million in the same quarter in 2002. An important factor in this growth was a full slate of contracts initiated in the quarter at Warnex Bioanalytical, a wholly owned subsidiary. On a nine-month basis, revenue totalled \$4.7 million compared with \$4.4 million during the same period a year ago.

Gross margin for the quarter was \$518,900 compared with \$794,100 in the third quarter of 2002. The decrease was the result of manufacturing start up expenses from the Diagnostic group. For the nine-month period ended September 30, 2003, gross margin decreased to \$985,800 from \$2.2 million last year.

Selling, general and administrative (SG&A) expenses for the third quarter of 2003 were \$1.0 million compared with \$764,200 in 2002. The increase is the result of higher levels of sales and marketing activity in preparation for the launch of Genevision. For the nine-month period SG&A expenses were \$3.2 million compared with \$1.9 million in 2002.

Warnex's net loss in the period was \$990,100, or (\$0.02) per common share, versus a loss of \$540,500 or (\$0.01) per share a year ago. For the nine-month period, net loss increased from \$1.1 million, or (\$0.04) per share, in 2002 to \$3.8 million, or (\$0.09) per share, this year.

We have a solid balance sheet with working capital of \$9.3 million, including cash, short-term investments and marketable securities totalling \$9.0 million.

As we enter the final quarter of 2003 and look forward to the New Year, we do so with great anticipation. Warnex has never been better positioned to realize its objective of establishing leadership in the detection of harmful bacteria. I look forward, in the upcoming Annual Report, to providing shareholders with an update on the year's many accomplishments and with an outline of our plans for 2004.

On behalf of the team at Warnex, I extend our best wishes for the upcoming Holiday Season to all shareholders.

Yours truly,

A handwritten signature in black ink, appearing to read 'Mark J. Busgang', with a horizontal line underneath it.

Mark J. Busgang
President & CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis provides a review of the performance of our company and should be read in conjunction with the unaudited financial statements for the third quarter ended September 30, 2003 and the related notes appearing elsewhere in this document. This discussion and analysis compares the performance for the third quarter of 2003 with that of 2002 and also reviews the opportunities, issues and risks that may impact future operations.

The enclosed financial statements have been prepared in accordance with the Canadian Generally Accepted Accounting Principles («GAAP»). All dollar figures are in Canadian dollars unless otherwise indicated. When we say «we», «us», «our» or «the company» we mean Warnex Inc. and its subsidiaries unless otherwise indicated.

OVERVIEW

Warnex Inc. is a genomics-based biotechnology company, whose shares are traded on the Toronto Stock Exchange (the «TSX») under the symbol WNX. The strategic focus of the company's activities is on quality control for the agri-food, environmental and pharmaceutical markets.

The main focus of the Company is centered on Genevision, a platform technology for quality control and production management. Using DNA markers, this leading-edge technology provides a robust, rapid, accurate and automated genomics-based detection system that can be readily deployed in a manufacturing plant. An e-link offers complete on-line support through the Internet, enabling centralized management of the quality control process.

The applications of the Genevision technology range from the rapid and accurate screening for bacteria including pathogens, to the detection and identification of GMO's. Production management can also be done through the use of Molecular Bar Codes that can be introduced into any product allowing for complete traceability, the primary requirement for quality management in manufacturing.

STRATEGIC BUSINESS UNITS

We have organized our operations into four strategic business units:

Business Unit	Name in 2003
Analytical services	Warnex Analytical Services Inc.
Bioanalytical services	Warnex Bioanalytical Services Inc.
Research & Development	Warnex Research Inc.
Diagnostic	Warnex Diagnostics Inc.

On February 3, 2003, we changed the names of all of our subsidiaries in order to have stronger brand identification to the public parent company, Warnex Inc., and to reinforce our leadership position in the quality control services market.

Analytical Services provides quality control services to the pharmaceutical, food and cosmetics industries. The types of services provided include traditional chemistry, microbiology and chromatography. Through a validation group, method development and validation services are offered and represent a growing part of our business.

Bioanalytical Services provides advanced Mass Spectrometry technology to pharmaceutical and biotechnology companies in order to assist them in their development of new pharmaceutical products. This division, which began its operations in 2001, had substantial growth in 2002 and is expected to grow year over year.

Research is focused on the ongoing research and development of our Genevision technology platform. Divided into two major programs, marker development and the detection platform, this group will continue the ongoing development of our technology, as well as the transfer of the technology to the Diagnostics group for manufacture and commercialization.

Diagnostics has the responsibility to focus on the manufacturing, validation and sales of the Genevision technology. Manufacturing will commence full operation in Q4 2003. The validation laboratory has been operating since Q4 2002 and our scientists have been successful in developing and validating both extraction and detection protocols. The sales and marketing groups formally commenced activities in Q1 2003 and are recruiting personnel, developing marketing tools and soliciting potential clients.

CORPORATE HIGHLIGHTS FOR THE THIRD QUARTER OF 2003

BALANCE SHEET

- \$9.0 million cash in the bank
- \$24.3 million in total assets
- \$19.3 million in shareholders' equity
- \$0.3 million invested in fixed assets during the quarter and \$1.7 million for the nine-month period ended September 30, 2003

STATEMENT OF OPERATIONS

- Revenue of \$1.7 million in Q3 2003 compared to \$1.6 million in Q3 2002. For the nine-month period ended September 30, 2003, revenue is 7% above last year at \$4.7 million
- Quarterly net loss of \$1.0 million compared to \$0.5 million for the same period last year. For the nine-month period ended September 30, 2003, the net loss is \$3.8 million compared to \$1.1 million last year

-
- Loss of \$0.02 per share compared to \$0.01 per share in Q3 2002. For the nine-month period ended September 30, 2003, the net loss per share was \$0.09 compared to \$0.04 last year

CORPORATE PERFORMANCE

- We now have regulatory approvals for *Salmonella* and *Listeria monocytogenes* and have submitted our *E.Coli* 0157 kits for approval.
- We signed up the first Genevision customer. We entered into a five-year agreement with Cardinal Meat Specialists Ltd ("Cardinal"), a major manufacturer and marketer of high quality, portion controlled meat products such as burgers and fully cooked pork ribs. Under the terms of the agreement, Warnex supplies Cardinal with the Genevision technology and equipment, as well as training for Cardinal's quality assurance personnel. Cardinal will use Genevision assays to test for *E.coli* O157, *Staphylococcus aureus*, *Salmonella* and *Listeria monocytogenes*.
- We also entered into an agreement to supply Axytrans Inc. (Dijon, France), a world leader in "Cash-in-transit" services, with Molecular Bar Codes that will be placed inside self-protected money transport cases. In the event that these cases are stolen and forced open, bottles filled with Axytrans' colorant (containing the Molecular Bar Codes) explode and maculate the money. The Molecular Bar Codes are single-stranded DNA molecules which can be encoded with various types of important information. The unique DNA signature makes subsequent tracing and identification of recovered currency highly accurate.
- We hired Mr. Luc Lavigne as VP Sales and Marketing to lead the marketing efforts and commercialization of Genevision. He has more than 20 years of experience in sales, marketing and business development of diagnostic products. His most recent position was as General Manager of Roche Diagnostics' lab network division. In addition to having a B.Sc. in microbiology, Mr. Lavigne earned an MBA from the University of Montreal.
- The FDA reviewed and inspected Warnex's facilities, including all of its analytical and bioanalytical laboratories and quality control systems during a two-day audit in July 2003. No deficiencies were found in any of the areas of examination.
- Warnex accepted the resignation of Mr. Christian Archambault as Chief Scientific Officer and Director of the Company, immediately following his disclosure to the Company that, while he earned a degree in microbiology and completed the scholastic portion of the requirements towards a doctorate, he did not complete his doctorate, as presented in both his biographical information and disclosures made by the Company. Mr. Archambault was a member of a highly qualified team of more than 25 accredited scientists that conceived and developed the Company's proprietary Genevision technology which has been independently validated by the Canadian Food Inspection Agency ("CFIA") following rigorous testing. As a result, two tests employing the Genevision technology for the detection of *Salmonella* and *Listeria monocytogenes* have been approved by the Microbiological Methods Committee, Health Canada

for commercial use and a number of others, including a test for the detection of E-coli, are presently being validated.

- We hired Dr. Yvan P. Côté as Vice President, Research and Development. Dr. Côté has extensive experience in the diagnostics industry. Prior to taking up his new role at Warnex, he spent several years at Adaltis Inc. (formerly BioChem Immunosystems) where he held roles of increasing responsibility in the R&D area including Director of Research and Development and Director, Clinical Laboratory Microbiology. Dr. Côté holds a Ph.D. in cellular biology from the University of Sherbrooke and has been awarded several prestigious fellowships. He is also the author of a number of publications in his field and lectures frequently at diagnostic sector conferences.

Dr. Côté is being supported in his new role by the formation of Warnex's Scientific Advisory Board, whose inaugural members include Dr. Pierre Belhumeur from the Department of Microbiology and Immunology at the University of Montreal and Dr. Susan Harlander, President of BIORational Consultants, a U.S. consulting firm specializing in food and agricultural biotechnology issues.

Dr. Pierre Belhumeur who holds a Ph.D. in Molecular Biology from the University of Montreal is widely recognized as a leading authority in food safety and also holds the SAPUTO Research Chair in dairy products from the University of Montreal.

Prior to creating BIORational Consultants, Dr. Susan Harlander was Vice President Biotechnology Development and Agricultural Research at The Pillsbury Company. She holds a Ph.D. in Food Science and Nutrition from the University of Minnesota, and has served on numerous government agency advisory committees in the United States including FDA's Food Advisory Committee and USDA's Agricultural Biotechnology Research Advisory Committee.

SUBSEQUENT EVENTS

- We entered into a collaborative agreement with Cincinnati, Ohio-based Q-Laboratories, Inc. to accelerate the process of receiving U.S. regulatory clearance by validating multiple Genevision pathogen detection tests, including E-coli 0157. Once these assays are approved by AOAC, Q-Laboratories intends to offer this technology as part of its quality control testing program to its food service clients.

With an international client base, Q-Laboratories is a full service chemistry, microbiology and product research laboratory accredited and or registered by the USDA, FDA and the AOAC. The AOAC is the organization that determines if new analytical testing methods, such as Genevision's pathogen detection tests, meet the necessary standards to be used in the food production industry.

- We also entered into a marketing agreement with Med-Ox Diagnostics Inc. whereby Med-Ox's national sales force will introduce the Genevision food safety system to its extensive client base throughout Canada. Med-Ox currently distributes traditional food safety microbiology products to mid-size and larger Canadian food producers. Under the terms of the agreement, Med-Ox will act as agents for Warnex introducing the Genevision technology to Canadian food producers and pass all leads it uncovers to

Warnex, who will be responsible for follow-up and final sale.

- On October 29, 2003, a group of investors, including members of the Company's senior management team, as well as SGF Soquia Inc. purchased a total of 2,644,868 common shares of Warnex from former Chief Scientific Officer, Christian Archambault and his holding company 9066-2032 Québec Inc. Mr. Archambault retains 4,487,250 shares in escrow representing 10.29% of all issued and outstanding shares of Warnex.

Société générale de financement du Québec, through its wholly-owned subsidiary, SGF Soquia Inc., purchased a total of 750,000 shares as part of the shares sold by 9066-2032 Québec Inc. Following this private transaction, SGF Soquia holds 9,321,428 common shares representing 21.37% of all issued and outstanding shares of Warnex. Mark Busgang, President & CEO of Warnex also agreed to sell 295,000 shares to the group of investors. He retains approximately 6.0 million Warnex shares.

- In October, we also concluded a \$4 million bank facility with National Bank of Canada to replace our existing banking facilities and provide the required leverage to support the anticipated growth of our operations. We now have the following credit facilities:
 - a) \$2,000,000 operating line of credit of which is due on demand and bears interest at 1% over the bank's prime lending rate;
 - b) \$2,000,000 revolving long-term line of credit to refinance the existing long term banking indebtedness and to finance the general cash requirements of the company and new fixed assets. This term line, which bears interest at 1.5% over the bank's prime leading rate, is committed for three years; and
 - c) The following security was granted: 1) First ranking moveable hypothec in the amount of \$5,040,000 covering the universality of movable properties, present and future but the Genevision's intellectual property and trademark, 2) Inventory, in virtue of Section 427 of the Bank Act, 3) Negative pledge on the Genevision's intellectual property and trademark, and 4) Guaranties from Warnex's subsidiaries secured by first ranking moveable hypothec in the amount of \$5,040,000 covering the universality of their properties, present and future but the Genevision's intellectual property and trademark.

MANAGEMENT OBJECTIVES FOR 2003

- Commercial deployment of the Genevision technology
- Growth in Warnex Analytical and Warnex Bioanalytical
- Prudent management of our Human and Financial resources
- Obtain additional regulatory approvals in Canada and initial regulatory approvals in the United States

RESULTS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2003

RESULTS

The following table highlights selected quarterly information regarding the Statement of Earnings:

	Revenue		Net loss		Net loss per share	
	2003	2002	2003	2002	2003	2002
Q3	1,747,954	1,611,727	990,108	540,500	0.02	0.01
Q2	1,239,376	1,524,278	1,656,947	262,987	0.04	0.01
Q1	1,711,566	1,246,743	1,105,369	322,466	0.03	0.01
Total	4,698,896	4,382,748	3,752,424	1,125,953	0.09	0.04

For the three-month period ended September 30, 2003, revenues reached \$1,747,954 (2002 - \$1,611,727), an increase of 9% over last year. For the nine-month period ended September 30, 2003 revenues reached \$4,698,896 (2002-\$4,382,748), an increase of 7% over last year. The analytical division increased revenues by 7% from \$2,748,028 to \$2,941,373. The bioanalytical division revenues were similar to last year at \$1,518,988.

Gross margin for the third quarter amounted to \$518,899 (2002 - \$794,083). The decrease of \$275,184 in gross margin compared to last year is mainly due to increased salaries. During the quarter, we developed new bioanalytical methods and increased our portfolio of available studies. We have also worked on validating and optimizing the production line of the Genevision technology. Labour increased by \$278,249 resulting from the addition of 12 people compared to last year. Repair and maintenance increased by \$34,281 and depreciation by \$49,400. For the nine-month period ended September 30, 2003, gross margin decreased by \$1,177,705 to \$985,771 (2002 - \$2,163,476).

Selling and administrative expenses amounted to \$853,421 for the three-month period ended September 30, 2003 (2002-\$668,147). The \$185,274 increase is mainly due to additional salaries for \$114,824 and amortization of equipment and leasehold improvements for \$34,525. We have hired 17 new selling and administrative employees since this time last year in order to support our operations, commercialize the Genevision technology, manage the rapid growth of the company and optimize our human and financial resources. For the nine-month period ended September 30, 2003, selling and administrative expenses increased by \$1,250,702 to \$2,830,933 (2002 - \$1,813,420).

Financial expenses increased by \$37,667 to \$133,722 due to interest on convertible debentures. For the nine-month period ended September 30, 2003, financial expenses increased by \$233,189 to \$368,537.

Research & development expenses are similar to last year at \$521,832 (2002 - \$534,017). We maintain the ongoing investment needed to gain regulatory approvals for the Genevision technology, continue to increase our portfolio of markers and improve our detection platform. For the nine-month period ended September 30,

2003, R&D expenses increased by \$239,865 to \$1,540,420 (2002 - \$1,300,555).

For the three-month period ended September 30, 2003, the net loss amounted to \$990,109 or \$0.02 per share (2002-\$540,500 or \$0.01 per share). For the nine-month period ended September 30, 2003, the net loss was \$3,752,424 or \$0.09 a share (2002 - \$1,125,953 or \$0.04 a share).

STRONG BALANCE SHEET

As at September 30, 2003, Warnex balance sheet remains strong with \$24,292,076 total assets, \$9,006,794 cash and short-term investments and \$19,308,133 shareholders' equity.

LIQUIDITY AND CAPITAL RESOURCES

To date, Warnex has financed its research and development, and capital expenditures associated with R&D and the manufacturing of the Genevision technology primarily through private placements of common shares, the issuance of convertible debentures and the receipt of investment tax credits earned on eligible expenditures. Since its inception, the company has raised \$28.9 million from equity-based transactions and an additional \$3.0 million from the issuance of convertible debentures.

The commercial operations of Warnex have been financed through their own internally generated cash flows and through the use of commercial banking facilities.

The Board of Directors of Warnex has implemented an investment policy regulating the investment activities of our cash resources. The company invests solely in liquid, high grade securities with varying maturity dates. As at September 30, 2003 the company has \$9,006,794 invested in cash and in such securities and \$228,163 in R&D tax credits.

Management believes that Warnex's existing working capital, unused commercial banking facilities and ongoing cash flow from operations will be sufficient to finance operations, R&D and the commercial roll-out of the Genevision through fiscal 2005. Depending of the future availability of capital in the market place, management may elect to seek additional equity or debt financing in order to maintain its solid balance sheet.

CORPORATE GOVERNANCE

Warnex believes that a high standard of corporate governance is not only fundamental to its success, but can even serve as a competitive advantage.

The Board of Directors has the ultimate responsibility to represent the shareholders of Warnex so as to protect the assets of the Corporation and to maximize shareholder value. Its role is not to manage the day-to-day operations of Warnex, this being delegated to the management of the Corporation and where appropriate to various committees of the Board.

Warnex has been a leader in adapting and maintaining the best practices in corporate governance. For example, the Chairman of the Board, Richard Laferrière is an independent director. The Chief Executive Officer of Warnex is Mark Busgang and is responsible for the implementation of the business plan and the overall management of the Corporation; we have adopted a Code of Ethics; there is only one related director on the Board of Directors, which meets regularly without this related director being present; and there are no related directors on any committee of the Board, except the Executive Committee.

The Toronto Stock Exchange (TSX) has established corporate governance guidelines for companies listed on the Exchange. Warnex believes that its governance practices comply with current TSX guidelines.

RISK AND UNCERTAINTIES

Warnex has made substantial efforts to minimize the risks associated with any Research and Development project. Our operating groups provide positive cash flow and profits, which cover the majority of the operating costs of the Warnex corporate group. As such we do not believe that the corporate viability of Warnex is at risk.

The risk factors inherent with our Genevision project are based on our ability to continue to develop additional markers and enhancements for the technology platform, as well as to manage the commercial rollout of the technology. As with any technology platform, Genevision will require ongoing funding to maintain its technological lead. While the company has adequate cash resources to finance R&D for at least 2 years, there is no guarantee that additional funds will be available.

OUTLOOK

We expect to continue to incur losses on a consolidated basis in 2003. While our operations are expected to continue to provide profits and positive cash flow, the costs associated with ongoing research and development as well as the development of sales, marketing and manufacturing operations for the Genevision technology will lead to overall operating losses and negative cash flow in 2003.

Critical events in 2003 will be ongoing regulatory approval in both Canada and the United States for the Genevision technology for several additional pathogens including *Listeria spp.*, *E. coli o157*, *E. coli*, and *Staphylococcus*. As well, we expect to have beta-test sites established in the fall of 2003 and to commence a broader commercial rollout of the technology towards the end of the year.

FORWARD LOOKING STATEMENTS

Management's discussion and analysis contains certain forward looking statements with respect to our company. These forward-looking statements by their nature necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by these forward-looking statements. We consider the assumptions on which these forward-looking statements are based to be reasonable but

caution the reader that these expectations regarding future events, many of which are beyond our control, may ultimately prove to be incorrect since they are subject to risks and uncertainties that affect us. Find above certain risks and uncertainties affecting us.

We disclaim any intention or obligation to publicly update or revise in the forward-looking statements whether as a result of new information future events or otherwise.

On behalf of management,

A handwritten signature in black ink, appearing to read "D. Pellerin", with a horizontal line extending to the right.

Denis Pellerin, c.a.

Chief Financial Officer

WARNEX INC.

**INTERIM CONSOLIDATED BALANCE SHEET
(Unaudited)**

	September 30 2003	December 31 2002
Assets		
Current		
Cash	\$226,852	\$288,368
Short-term investments	389,239	726,476
Marketable Securities	8,390,703	12,747,596
Accounts receivable	1,311,717	1,516,311
Work-in-process	81,120	
Income taxes receivable	228,163	334,068
Prepaid expenses	123,795	115,859
	10,751,589	15,728,678
Capital assets	6,167,403	5,342,679
Goodwill	7,373,083	7,373,083
	\$24,292,075	\$28,444,440
Liabilities		
Current		
Bank indebtedness	\$0	\$0
Accounts payable	992,556	1,412,640
Deferred Revenue	28,265	17,925
Current portion of long-term debt	317,500	305,391
Current portion of convertible debentures	71,605	14,301
	1,409,926	1,750,257
Long-term debt	637,495	875,293
Liability component of convertible debentures	2,936,521	2,825,315
	4,983,942	5,450,865
Shareholders' equity		
Capital stock	28,944,509	28,846,634
Equity component of convertible debentures	332,000	332,000
Deficit	(9,968,376)	(6,185,059)
	19,308,133	22,993,575
	\$24,292,075	\$28,444,440

WARNEX INC.

**INTERIM CONSOLIDATED STATEMENT OF EARNINGS
(Unaudited)**

	Three months ended September 30		Nine months ended September 30	
	2003	2002	2003	2002
Revenue	1,747,954	1,611,727	4,698,896	4,382,748
Cost of goods sold	1,229,055	817,644	3,713,125	2,219,272
Gross margin	518,899	794,083	985,771	2,163,476
Operating expenses				
Selling, general and administrative	853,421	668,147	2,830,933	1,813,420
Finance charges	133,722	96,055	368,537	135,348
	987,143	764,202	3,199,470	1,948,768
Profit (Loss) before the undernoted items	(468,244)	29,881	(2,213,699)	214,708
Research expenditures, net of tax credits	521,832	534,017	1,540,420	1,300,555
Profit (Loss) from continuing operations	(990,076)	(504,136)	(3,754,119)	(1,085,847)
Profit (Loss) from discontinued operations	(33)	(36,364)	1,695	(40,106)
Net loss	(990,109)	(540,500)	(3,752,424)	(1,125,953)
Net loss per share from continuing operations	(0.02)	(0.01)	(0.09)	(0.04)
Net loss per share	\$(0,02)	\$(0,01)	\$(0,09)	\$(0,04)
Weighted average number of shares	43,461,883	37,296,550	43,367,868	29,009,350

WARNEX INC.

INTERIM CONSOLIDATED STATEMENT OF DEFICIT
(Unaudited)

	Three months ended		Nine months ended	
	September 30		September 30	
	2003	2002	2003	2002
Balance, beginning of period				
As previously reported	\$(8,967,131)	\$(4,283,436)	\$(6,185,059)	\$(3,697,983)
Change in accounting policy regarding goodwill	0	0	0	0
As restated	\$(8,967,131)	\$(4,283,436)	(6,185,059)	(3,697,983)
Interest on equity component of convertible debentures	(11,136)	0	(30,893)	0
Net loss	(990,109)	(540,500)	(3,752,424)	(1,125,953)
Balance, end of period				
	\$(9,968,376)	\$(4,823,936)	\$(9,968,376)	\$(4,823,936)

WARNEX INC.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

	Three months ended September 30		Nine months ended September 30	
	2003	2002	2003	2002
Operations				
Net loss	(990,109)	(540,500)	(3,752,424)	(1,125,953)
Items not affecting cash:				
Amortization	298,308	214,707	875,364	531,480
Write-off of trademarks	0	2,499	0	7,497
Write-off of leasehold improvements	0	0	0	0
Write-off of investment	0	0	0	0
Loss on disposal of capital assets	0	0	0	0
Interest on equity component of convertible debentures	(11,136)	0	(30,893)	0
	(702,937)	(323,294)	(2,907,953)	(586,976)
Net change in non-cash working capital items	(562,098)	(38,692)	(188,301)	119,969
	(1,265,035)	(361,986)	(3,096,254)	(467,007)
Financing activities				
Increase (decrease) in loan payable	0	(225,000)	0	0
Proceeds from long-term debt	0	0	2,515	(250,000)
Repayment of long-term debt	(78,900)	(3,743,283)	(228,203)	3,806,322
Liability component of convertible debentures	(10,011)	(50,611)	168,510	(165,807)
Equity component of convertible debentures	0	0	0	0
Issue of shares	0	17,856,400	98,125	20,061,400
Cost of issuance	0	(323,924)	(250)	(560,591)
	(88,911)	21,000,148	40,697	22,891,324
Investing activities				
Decrease in short-term investments	99,902	0	236,315	0
Decrease in marketable securities	1,349,992	0	4,356,892	0
Acquisition of capital assets	(363,240)	(1,719,436)	(1,700,088)	(3,258,681)
Proceeds on disposal of capital assets	0	0	0	0
Acquisition of goodwill	0	(7,352,088)	0	(7,352,088)
	1,086,654	(9,071,524)	2,893,119	(10,610,769)
Increase (decrease) in cash and cash equivalents	(267,292)	11,566,638	(162,438)	11,813,548
Cash and cash equivalents, beginning of period	494,144	2,418,969	389,290	2,172,059
Cash and cash equivalents, end of period	226,852	13,985,607	226,852	13,985,607

Notes to Interim Consolidated Financial Statements (unaudited)

1. Significant accounting policies

The accompanying unaudited financial statements are prepared in accordance with Canadian generally accepted accounting principles for interim financial statements and do not include all the information required for complete financial statements. They are consistent with the policies outlined in the Company's audited financial statements for the year ended December 31, 2002. The interim financial statements and related notes should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2002. When necessary, the financial statements include amounts based on informed estimates and best judgements of management. The results of operations for the interim periods reported are not necessarily indicative of results to be expected for the year.

The Company has granted stock options during the year. No compensation expense is recognized when stock options are issued to employees. Any consideration paid by employees on the exercise of stock options is credited to capital stock.

2. Information relating to the consolidated statement of earnings

	2003
a) The following items are included in cost of goods sold:	
Amortization, lab equipment	255,244
Amortization, machinery and equipment	10,575
Amortization, leasehold improvements	120,320
b) The following items are included in operating and R&D expenses:	
Amortization, R&D equipment	120,517
Amortization, telephone equipment	5,339
Amortization, furniture and fixtures	27,914
Amortization, computer software	11,702
Amortization, computer equipment	34,615
Amortization, leasehold improvements	289,136
Amortization, trademarks	
Interest and bank charges	60,476
Interest on long-term debt	60,038
Interest on convertible debentures	248,255
Write-off of leasehold improvements	-

3. Capital stock

- a) **Authorized:** An unlimited number of the following classes of shares:
- Common shares, voting, without nominal or par value.
 - Preferred shares, issuable in series, without nominal or par value.

Notes to Interim Consolidated Financial Statements (unaudited)

b) Issued

The issued and fully paid capital stock consists of common shares as follows:

	Three months ended September 30		Nine months ended September 30	
	Number	Amount	Number	Amount
Balance, beginning of period	43,461,883	28,944,509	43,141,739	28,846,634
Issued			587,000	98,125
Costs of issuance			-	(250)
Redeemed			(266,856)	-
Balance, end of period	43,461,883	28,944,509	43,461,883	28,944,509

As part of the acquisition of Groupe d'investigations techniques et d'expertises (G.I.T.E.) Inc., the forensic consulting subsidiary, 300,000 shares of the Company were issued subject to a performance escrow agreement and 266,856 of these shares were still subject to the escrow agreement as at December 31, 2002.

Since the operations of this forensic consulting subsidiary were discontinued in the fourth quarter of 2002, the remaining 266,856 shares subject to the escrow agreement were cancelled and redeemed by Warnex in the second quarter of 2003.

c) Common stock option plan

In order to respect the requirements of the Toronto Stock Exchange regarding incentive plans, a new Stock Option Plan was approved at the June 2003 Annual meeting of Shareholders (the "2003 Stock Option Plan").

The 2003 Stock Option Plan provides that a maximum of 4,319,273 options to subscribe Common Shares may be granted, which number represents 10% of the total issued and outstanding shares of the Company on the date of the approval of the 2003 Plan by the Directors. Options granted under the terms of the previous plan of the Company are governed by the 2003 Plan. Stock options may only be granted to directors, officers, employees and consultants of the Company or its subsidiaries. No single person may be granted options covering more than 5% of the Company's issued and outstanding Common Shares.

The number of common shares covered by any stock option, the exercise price, expiry date and vesting period of such stock option and any other matter pertaining thereto are determined by the Board of Directors of the Company or the Human Resources and Remuneration Committee.

Notes to Interim Consolidated Financial Statements (unaudited)

No option may be allotted for a period exceeding 10 years and the exercise price of each stock option is equal to the market price of the share at the close of business of the exchange on the date immediately preceding the grant. Unless the Board of Directors or the Human Resources and Remuneration Committee decides otherwise, each option granted pursuant to the 2003 Stock Option Plan will vest in three annual and equal tranches from the date of its grant and at each of the two subsequent anniversaries. Notwithstanding the foregoing, if the Corporation is sold, all the options that are not vested at the time of the sale will become vested and may be exercised by the optionees.

As at September 30, 2003, the Company has granted options to purchase 1,202,834 common shares at various exercise prices, each governed by the 2003 Stock Option Plan of the Company, expiring no later than the year 2013.

The changes to the number of stock options outstanding are as follows:

	Three months ended Sept 30	Nine months ended Sept 30
Balance, beginning of year	1,004,834	1,555,334
Granted	205,000	304,500
Exercised		(587,000)
Cancelled	(7,000)	(70,000)
	<u>1,202,834</u>	<u>1,202,834</u>

Stock options outstanding are as follows:

<u>Exercise price</u>	<u>2003</u>
0.40	327,500
0.80	75,000
0.84	45,000
0.85	141,000
0.86	12,500
0.87	75,000
0.92	31,000
1.00	140,000
1.03	25,000
1.05	93,000
1.07	15,000
1.10	53,000
1.20	36,834
1.25	75,000
1.26	8,000
1.50	45,000
1.70	5,000
	<u>1,202,834</u>

Notes to Interim Consolidated Financial Statements (unaudited)

During the quarter, the Company granted 205,000 options to purchase common shares. The weighted average grant date fair value of options granted during the quarter amounted to \$1.08 per option. The weighted average value of each option granted in 2002 was \$1.02 per option. The fair value of each option granted was determined using the Black-Scholes option pricing model and the following weighted average assumptions:

	2002 options	2003 options
Risk-free interest rate	4.36%	5.25%
Expected life	5 years	10 years
Expected volatility in the market price of the shares	88%	88%
Expected dividend yield	0%	0%

The Company has elected to account for its share option plan as capital transactions. If the share option plan had been accounted for based on the fair value method, 2003 pro forma net loss and pro forma loss per share would have been as follows:

Net loss	
- as reported	\$3,752,424
- pro forma	\$3,858,100
Loss per share	
Basic - as reported	\$0.09
- pro forma	\$0.09

The pro forma figures omit the effect of stock options granted prior to January 1, 2002.

Notes to Interim Consolidated Financial Statements (unaudited)

4. Segmented information

For the nine-month period ended September 30, 2003, the Companies operated in Canada in the following industries:

	Revenue	Net earnings (loss)	Amortization	Capital assets and goodwill	Total assets
Analytical services	\$2,941,373	\$286,333	\$246,972	\$1,246,444	\$2,416,624
Bioanalytical services	1,518,988	280,922	185,662	1,133,822	1,834,919
Research & development	2,296	(1,541,653)	248,507	8,773,681	9,034,319
Manufacturing diagnostic products	223	(995,773)	8,724	1,457,231	1,519,317
Management services	236,015	(1,783,948)	185,499	929,308	9,476,869
	4,698,896	(3,754,119)	875,364	13,540,486	24,282,048
Discontinued operations					
Forensic consulting	4,857	1,695	-	-	10,027
	<u>\$4,703,753</u>	<u>\$(3,752,424)</u>	<u>\$875,364</u>	<u>\$13,540,486</u>	<u>\$24,292,075</u>

5. Related party transaction

133,428 shares of Warnex, subject to a performance escrow agreement, were cancelled and redeemed from 9066-2032 Quebec Inc., a company controlled by Mr. Christian Archambault, shareholder having more than 10% of the voting shares of Warnex. They were cancelled in April 2003 following the decision of the Company to discontinue the operations related to its forensic consulting subsidiary Groupe d'investigations techniques et d'expertises (G.I.T.E.) Inc.

6. Comparative figures

Certain figures in the 2002 quarterly financial statements have been restated to conform with the presentation in the current year.

7. Subsequent events

In October, we concluded a \$4 million bank facility with National Bank of Canada to replace our existing banking facilities and provide the required leverage to support the anticipated growth of our operations. We now have the following credit facilities:

- a) \$2,000,000 operating line of credit of which is due on demand and bears interest at 1% over the bank's prime lending rate;

Notes to Interim Consolidated Financial Statements (unaudited)

- b) \$2,000,000 revolving long term line of credit to refinance the existing long term banking indebtedness and to finance the general cash requirements of the company and new fixed assets. This term line bears interest at 1.5% over the bank's prime leading rate, is committed for three years; and
- c) The following security was granted: 1) First ranking moveable hypothec in the amount of \$5,040,000 covering the universality of movable properties, present and future but the Genevision's intellectual property and trademark, 2) Inventory, in virtue of Section 427 of the Bank Act, 3) Negative pledge on the Genevision's intellectual property and trademark, and 4) Guaranties from Warnex's subsidiaries secured by first ranking moveable hypothec in the amount of \$5,040,000 covering the universality of their properties, present and future but the Genevision's intellectual property and trademark.