



Why Opportunity Now

2003 Second Quarter Results

Dear Shareholders:

During the second quarter of 2003 we focused on ramping up our marketing activities in preparation for the imminent launch of our core product Genevision, the Company's proprietary food safety technology that detects pathogens in the food supply. Among the initiatives we undertook were attendance at two major food safety conferences in July and August where we exhibited our technology and presented to attendees.

We also added a very important new team member by hiring Luc Lavigne as our Vice President, Sales and Marketing to spearhead our efforts in the critical period ahead. Prior to joining Warnex, Mr. Lavigne was at Roche Diagnostics Canada where he had several roles of increasing responsibility, including the position of General Manager of Roche Diagnostics' Lab Network Division. Before his tenure at Roche, he had various sales and marketing positions in other well-known diagnostics and pharmaceutical companies.

Our financial results during the quarter, particularly profitability, also reflected the build-up towards commercialization of Genevision. Consolidated revenue for the second quarter was \$1.2 million, down from \$1.5 million in the same quarter of 2002. The decline in revenue was the result of delays in starting work on certain contracts at our wholly owned Warnex Bioanalytical subsidiary. The Company expects to recognize revenue from these contracts in the second half of the year. On a six-month basis, revenue totalled \$3.0 million dollars compared with \$2.8 million over the same period a year ago.

Gross margin for the quarter was (\$8,314) versus \$780,420 in the second quarter of 2002. The decrease resulted from higher labour and occupancy costs associated with workforce and facility expansions to support planned revenue growth in the second half of 2003. For the six-month period ended June 30, 2003, gross margin decreased to \$466,872 from \$1.4 million last year.

Selling, general and administrative (SG&A) expenses for the second quarter of 2003 were \$1.0 million compared to \$588,863 in 2002, again the product of higher levels of sales and marketing activity in preparation for the launch of Genevision. For the first half of the year, SG&A expenses were \$2.0 million compared with \$1.1 million in 2002.

Research and development expenses for the quarter were \$541,547 versus \$427,268, in the second quarter of 2002. The increase was the result of the Company continuing to work towards obtaining regulatory approvals in Canada for Genevision, expanding its portfolio of markers and ongoing improvements in its detection platform.

Warnex's net loss in the period was \$1.7 million, or \$0.04 per common share, versus a loss of \$262,987, or \$0.01 per share a year ago. For the six-month period, net loss increased from 581,710, or \$0.02 per share, in 2002 to 2.8 million, or \$0.06 per share, this year.

We continue to enjoy good financial flexibility with cash, short-term investments and marketable securities totalling \$10.7 million. This strength will help us to fund our growth strategy.

In early July, the U.S. Food and Drug Administration reviewed and inspected Warnex's facilities, including all our analytical and bioanalytical laboratories and quality control systems during a two-day audit. No deficiencies were found in any area of examination.

This positive inspection is yet another indication that Warnex is prepared to take the next step towards commercialization. We have the facilities, the people, the financial resources and, most important, the technological platform to transform the Company into a robust commercial enterprise.

As we work towards obtaining the final elements of our plan, including FDA approval for Genevision in the United States and agreements with key customers to Beta test the product, our entire team awaits commercialization with great anticipation.

Thank you for investing in Warnex's future; we look forward to reporting further progress at the end of the next quarter.

Yours truly,

A handwritten signature in black ink, appearing to read "Mark Busgang", with a long horizontal flourish extending to the right.

Mark 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 second quarter ended June 30, 2003 and the related notes appearing elsewhere in this document. This discussion and analysis compares the performance for the second 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 in any product allowing for complete traceability, the primary condition to 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. The manufacturing operations will commence full operations in Q3 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 have formally commenced activities in Q1 2003 and are recruiting personnel, developing marketing tools and soliciting potential clients.

CORPORATE HIGHLIGHTS FOR THE SECOND QUARTER OF 2003

BALANCE SHEET

- \$10.7 million cash in the bank
- \$25.5 million in total assets
- \$20.3 million in shareholders' equity
- \$0.3 million invested in fixed assets during the quarter and \$1.3 million for the six-month period ended June 30, 2003

STATEMENT OF OPERATIONS

- Revenue of \$1.2 million in Q2 2003 compared to \$1.5 million in Q2 2002. For the six-month period ended June 30, 2003, revenue are 6.5% above last year at \$3.0 million
- Quarterly net loss of \$1.7 million compared to \$0.3 million for the same period last year. For the six-

month period ended June 30, 2003, the net loss is \$2.8 million compared to \$0.6 million last year

- Loss of \$0.04 per share compared to \$0.01 per share in Q2 2002. For the six-month period ended June 30, 2003, the net loss per share was \$0.06 compared to \$0.02 last year

CORPORATE PERFORMANCE

- 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.
- Granted Microbiology Food Laboratory Procedure (MFLP) status in Canada for the detection of *Listeria monocytogenes* using Genevision technology. We now have regulatory approvals for *Salmonella* and *Listeria monocytogenes* and have submitted our *E.Coli 0157* kits for approval

SUBSEQUENT EVENTS

- 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.
- Subsequent to the end of the quarter, we participated in two major events as exhibitors at the International Food Technology in Chicago and at the International Association for Food Protection in New Orleans. We will be exhibitors at the AOAC Convention in September in Atlanta and at the World Food Expo in November in Chicago.

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 JUNE 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
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	2,950,942	2,771,021	2,762,316	585,453	0.06	0.02

For the three-month period ended June 30, 2003, revenues reached \$1,239,376 (2002 - \$1,524,278), a decrease of 19% over last year. For the six-month period ended June 30, 2003 revenues reached \$2,950,942 (2002-\$2,771,021), an increase of 6% over last year. The analytical division increased revenues by 4% from \$1,852,309 to \$1,930,287. The bioanalytical division revenues are similar to last year at \$853,796.

Gross margin for the second quarter amounted to \$(8,314) (2002 - \$780,420). The decrease of \$788,734 in gross margin compared to last year is due to additional labour, materials and occupancy costs to generate revenue growth in the second part of 2003. 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 \$261,534 resulting from the addition of 26 persons compared to last year. Materials include chemical products and laboratory supplies and increased by \$120,366. Occupancy cost increased by \$74,593 due to additional space required to accommodate our forecasted revenue growth. For the six-month period ended June 30, 2003, gross margin decreased by \$902,521 to \$466,872 (2002 - \$1,369,393).

Selling and administrative expenses amounted to \$977,186 for the three-month period ended June 30, 2003 (2002-\$588,863). The \$388,323 increase is mainly due to additional office space for \$37,250, amortization of equipment and leasehold improvements for \$43,550, additional exchange & investors relations fees for \$41,875 and \$139,616 of salaries. We have hired 9 new selling and administrative employees compared to the same period 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 six-month period ended June 30, 2003, selling and administrative expenses increased by \$832,241 to \$1,977,513 (2002 - \$1,145,272).

Financial expenses increased by \$113,225 to \$129,849 due to interest on convertible debentures. For the six-month period ended June 30, 2003, financial expenses increased by \$195,522 to \$234,815.

Research & development expenses increased by \$114,279 to \$541,547 (2002 - \$427,268). The increase reflects the ongoing investment needed to gain Canadian regulatory approvals for the Genevision technology, continue to increase our portfolio of markers and improve our detection platform. For the six-month period ended June 30, 2003, R&D expenses increased by \$252,050 to \$1,018,588 (2002 - \$766,538).

For the three-month period ended June 30, 2003, the net loss amounted to \$1,656,947 or \$0.04 per share (2002-\$262,987 or \$0.01 per share). For the six-month period ended June 30, 2003, the net loss was \$2,762,316 or \$0.06 a share (2002 - \$585,453 or \$0.02 a share).

STRONG BALANCE SHEET

As at June 30, 2003, Warnex balance sheet remains strong with \$25,538,466 total assets, \$10,723,981 cash and short-term Investments and \$20,309,378 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 June 30, 2003 the company has \$10,723,981 invested in cash and in such securities and \$454,981 of 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 on the future availability of capital in the public markets, management may elect to seek additional equity or debt funding 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 of 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 are only two related directors on the Board of Directors, which meets regularly without these related directors 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 3 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*, *Staphylococcus* and total viable organisms. 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 below 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 from the end of the signature.

Denis Pellerin, c.a.

Chief Financial Officer

WARNEX INC.

**INTERIM CONSOLIDATED BALANCE SHEET
(Unaudited)**

	June 30 2003	December 31 2002
Assets		
Current		
Cash	\$494,144	\$288,368
Short-term investments	489,142	726,476
Marketable Securities	9,740,695	12,747,596
Accounts receivable	777,085	1,516,311
Income taxes receivable	454,981	334,068
Prepaid expenses	106,864	115,859
	12,062,911	15,728,678
Capital assets	6,102,472	5,342,679
Goodwill	7,373,083	7,373,083
	\$25,538,466	\$28,444,440
Liabilities		
Current		
Bank indebtedness	\$0	\$0
Accounts payable	1,148,790	1,412,640
Deferred Revenue	28,265	17,925
Current portion of long-term debt	317,190	305,391
Current portion of convertible debentures	64,192	14,301
	1,558,437	1,750,257
Long-term debt	716,706	875,293
Liability component of convertible debentures	2,953,945	2,825,315
	5,229,088	5,450,865
Shareholders' equity		
Capital stock	28,944,509	28,846,634
Equity component of convertible debentures	332,000	332,000
Deficit	(8,967,131)	(6,185,059)
	20,309,378	22,993,575
	\$25,538,466	\$28,444,440

WARNEX INC.

INTERIM CONSOLIDATED STATEMENT OF EARNINGS
(Unaudited)

	Three months ended June 30		Six months ended June 30	
	2003	2002	2003	2002
Revenue	\$1,239,376	\$1,524,278	\$2,950,942	\$2,771,021
Cost of goods sold	1,247,690	743,858	2,484,070	1,401,628
Gross margin	(8,314)	780,420	466,872	1,369,393
Operating expenses				
Selling, general and administrative	977,186	588,863	1,977,513	1,145,272
Finance charges	129,849	16,624	234,815	39,293
	1,107,035	605,487	2,212,328	1,184,565
Profit (Loss) before the undernoted items	(1,115,349)	174,933	(1,745,456)	184,828
Research expenditures, net of tax credits	541,547	427,268	1,018,588	766,538
Profit (Loss) from continuing operations	(1,656,896)	(252,335)	(2,764,044)	(581,710)
Profit (Loss) from discontinued operations	(51)	(10,652)	1,728	(3,743)
Net loss	\$(1,656,947)	\$(262,987)	\$(2,762,316)	\$(585,453)
Net loss per share from continuing operations	\$0,04	\$0,01	\$0,06	\$0,02
Net loss per share	\$0,04	\$0,01	\$0,06	\$0,02
Weighted average number of shares	43,441,454	24,534,550	43,327,576	23,634,550

WARNEX INC.

INTERIM CONSOLIDATED STATEMENT OF DEFICIT
(Unaudited)

	Three months ended June 30		Six months ended June 30	
	2003	2002	2003	2002
Balance, beginning of period				
As previously reported	\$(7,300,252)	\$(4,020,449)	\$(6,185,059)	\$(3,697,983)
Change in accounting policy regarding goodwill	0	0	0	0
As restated	(7,300,252)	(4,020,449)	(6,185,059)	(3,697,983)
Interest on equity component of convertible debentures	(9,932)	0	(19,756)	0
Net loss	(1,656,947)	(262,987)	(2,762,316)	(585,453)
Balance, end of period	\$(8,967,131)	\$(4,283,436)	\$(8,967,131)	\$(4,283,436)

WARNEX INC.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

	Three months ended June 30		Six months ended June 30	
	2003	2002	2003	2002
Operations				
Net loss	\$(1,656,947)	\$(262,987)	\$(2,762,316)	\$(585,453)
Items not affecting cash:				
Amortization	292,026	181,427	577,055	316,771
Write-off of trademarks	0	2,500	0	5,000
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	(9,932)	0	(19,756)	0
	(1,374,853)	(79,060)	(2,205,017)	(263,682)
Net change in non-cash working capital items	(73,313)	(314,098)	373,798	(158,661)
	(1,448,166)	(235,038)	(1,831,219)	(105,021)
Financing activities				
Increase (decrease) in loan payable	0	0	0	0
Proceeds from long-term debt	0	(25,000)	2,515	(25,000)
Repayment of long-term debt	(78,133)	1,967	(149,303)	(52,157)
Liability component of convertible debentures	89,753	0	178,521	0
Equity component of convertible debentures	0	0	0	0
Issue of shares	36,150	0	98,125	2,205,000
Cost of issuance	0	(5,529)	(250)	(236,667)
	47,770	(28,562)	129,608	1,891,176
Investing activities				
Decrease in short-term investments	(2,236)	0	136,412	0
Decrease in marketable securities	1,791,229	0	3,006,901	0
Acquisition of capital assets	(266,885)	(966,010)	(1,336,848)	(1,539,246)
Proceeds on disposal of capital assets	0	0	0	0
Acquisition of goodwill	0	0	0	0
	1,522,108	(966,010)	1,806,465	(1,539,246)
Increase (decrease) in cash and cash equivalents	121,712	(759,534)	104,854	246,909
Cash and cash equivalents, beginning of period	372,432	3,178,502	389,290	2,172,059
Cash and cash equivalents, end of period	\$494,144	\$2,418,968	\$494,144	\$2,418,968

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	168,335
Amortization, machinery and equipment	6,468
Amortization, leasehold improvements	79,547
b) The following items are included in operating and R&D expenses:	
Amortization, R&D equipment	81,340
Amortization, telephone equipment	3,599
Amortization, furniture and fixtures	17,042
Amortization, computer software	7,688
Amortization, computer equipment	22,965
Amortization, leasehold improvements	190,070
Amortization, trademarks	
Interest and bank charges	36,118
Interest on long-term debt	40,063
Interest on convertible debentures	158,764
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 June 30		Six months ended June 30	
	Number	Amount	Number	Amount
Balance, beginning of period	43,487,739	28,908,359	43,141,739	28,846,634
Issued	241,000	36,150	587,000	98,125
Costs of issuance	-	-	-	(250)
Redeemed	(266,856)	-	(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 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 June 30, 2003, the Company has granted options to purchase 1,004,834 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 June 30	Six months ended June 30
Balance, beginning of year	1,197,334	1,555,334
Granted	99,500	99,500
Exercised	(241,000)	(587,000)
Cancelled	(51,000)	(63,000)
	1,004,834	1,004,834

Stock options outstanding are as follows:

<u>Exercise price</u>	<u>2003</u>
0.40	327,500
0.80	75,000
0.85	56,000
0.86	12,500
0.92	31,000
1.00	140,000
1.03	25,000
1.05	93,000
1.07	20,000
1.10	54,000
1.20	36,834
1.25	75,000
1.26	9,000
1.50	45,000
1.70	5,000
	<u>1,004,834</u>

Notes to Interim Consolidated Financial Statements (unaudited)

During the quarter, the Company granted 99,500 options to purchase common shares. The weighted average grant date fair value of options granted during the quarter amounted to \$0.83 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%	4,36%
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	\$2,762,316
- pro forma	\$2,851,111
Loss per share	
Basic - as reported	\$0.06
- pro forma	\$0.07

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

In the first half of 2003, the Companies operated in Canada in the following industries:

	Revenue	Net earnings (loss)	Amortization	Capital assets and goodwill	Total assets
Analytical services	\$1,930,287	\$125,609	\$159,916	\$1,146,506	\$2,372,723
Bioanalytical services	853,796	24,411	124,893	1,159,586	1,476,024
Research & development	1,359	(1,020,115)	166,720	8,785,795	9,284,198
Manufacturing diagnostic products	-	(658,325)	4,858	1,430,006	1,434,598
Management services	165,500	(1,235,624)	120,668	953,662	10,959,917
	2,950,942	(2,764,044)	577,055	13,475,555	25,527,460
Discontinued operations					
Forensic consulting	4,857	1,728	-	-	11,006
	<u>\$2,955,799</u>	<u>\$(2,762,316)</u>	<u>\$577,055</u>	<u>\$13,475,555</u>	<u>\$25,538,466</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.