

WARNEX INC.

**INTERIM CONSOLIDATED BALANCE SHEET
(Unaudited)**

	September 30 2002	December 31 2001
Assets		
Current		
Cash and short-term investments	\$ 13,985,607	\$ 2,446,676
Accounts receivable	1,178,777	602,519
Work-in-progress	154,182	70,917
Income taxes receivable	451,504	377,525
Prepaid expenses	78,880	57,554
	15,848,950	3,555,191
Capital assets	4,679,966	1,952,761
Trademarks	57,500	65,000
Goodwill	7,876,520	524,432
	\$ 28,462,936	\$ 6,097,384
Liabilities		
Current		
Bank indebtedness	\$ 0	\$ 274,617
Accounts payable	1,659,131	909,249
Deferred Revenue	162,521	37,605
Current portion of long-term debt	292,828	209,241
	2,114,480	1,430,712
Loan payable	0	250,000
Long-term debt	4,034,378	477,450
	6,148,858	2,158,162
Shareholders' equity		
Capital stock	27,138,014	7,637,205
Deficit	(4,823,936)	(3,697,983)
	22,314,078	3,939,222
	\$ 28,462,936	\$ 6,097,384

WARNEX INC.

INTERIM CONSOLIDATED STATEMENT OF EARNINGS
(Unaudited)

	Three months ended Sept. 30		Nine months ended Sept. 30	
	2002	2001	2002	2001
Revenue	\$1,721,519	\$872,375	\$4,775,317	\$2,741,314
Cost of goods sold	937,454	654,499	2,571,781	2,049,671
Gross margin	784,065	217,876	2,203,536	691,643
Operating expenses				
Selling, general and administrative	691,055	409,122	1,884,613	1,112,898
Finance charges	99,493	23,468	144,321	60,156
	790,548	432,590	2,028,934	1,173,054
Profit (Loss) before the undernoted items	(6,483)	(214,714)	174,602	(481,411)
Research expenditures, net of tax credits	534,017	250,754	1,300,555	657,488
Net loss	\$540,500	465,468	1,125,953	1,138,899
Net loss per share	\$ 0.01	0.02	0.04	0.06

WARNEX INC.

INTERIM CONSOLIDATED STATEMENT OF DEFICIT
(Unaudited)

	Three months ended Sept. 30		Nine months ended Sept. 30	
	2002	2001	2002	2001
Balance, beginning of period	\$(4,283,436)	\$(2,404,630)	\$(3,697,983)	\$(1,731,199)
Net loss	540,500	465,468	1,125,953	1,138,899
Balance, end of period	\$(4,823,936)	\$(2,870,098)	\$(4,823,936)	\$(2,870,098)

WARNEX INC.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

	Three months ended Sept. 30		Nine months ended Sept. 30	
	2002	2001	2002	2001
Operations				
Net loss	\$ (540,500)	\$ (465,468)	\$ (1,125,953)	\$ (1,138,899)
Items not affecting cash:				
Amortization	217,206	85,043	538,977	261,250
Loss on disposal of capital assets	0	0	0	952
	(323,294)	(380,425)	(586,976)	(876,697)
Net change in non-cash working capital items	(38,692)	(152,450)	119,969	(111,167)
	(361,986)	(532,875)	(467,007)	(987,864)
Financing activities				
Increase (decrease) in bank loans	0	63,928	0	44,692
Increase (decrease) in loan payable	(225,000)	0	(250,000)	146,917
Proceeds from (repayment of) long-term debt	3,743,283	(3,083)	3,806,322	388,823
Repayment of long-term debt	(50,611)		(165,807)	
Issue of shares	17,856,400	4,615	20,061,400	2,563,119
Cost of issuance	(323,924)	23,930	(560,591)	0
	21,000,148	89,390	22,891,324	3,143,551
Investing activities				
Acquisition of capital assets	(1,719,436)	(252,376)	(3,258,681)	(758,583)
Acquisition of goodwill	(7,352,088)	0	(7,352,088)	0
	(9,071,524)	(252,376)	(10,610,769)	(758,583)
Increase (decrease) in cash and cash equivalents	11,566,638	(695,861)	11,813,548	1,397,104
Cash and cash equivalents, beginning of period	2,418,969	2,125,128	2,172,059	32,163
Cash and cash equivalents, end of period	\$13,985,607	1,429,267	13,985,607	1,429,267

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, 2001, except for the amortization of goodwill as described below. 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, 2001. 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.

2. Changes in accounting policies

Goodwill

In 2001, the Canadian Institute of Chartered Accountants (CICA) approved new recommendations modifying the method of accounting for goodwill and other intangible assets. The new recommendations of the CICA Handbook, Section 3062, "Goodwill and other Intangible Assets", have to be applied for fiscal years beginning on or after January 1, 2002.

In accordance with the requirements of Section 3062, the Company no longer amortizes its goodwill but evaluates goodwill for impairment at least annually. This change in accounting policy is not applied retroactively and the amounts presented for prior periods have not been restated.

Section 3062's transitional provisions require the Company and its subsidiaries to assess whether goodwill and other intangible assets are impaired as of January 1, 2002. The Company and its subsidiaries have up to six months (to June 30, 2002) to complete their initial assessment and a further six months to perform and measure the amount of impairment, if any. This second step is to be completed no later than December 31, 2002. Any impairment identified through the application of this process will be charged to opening deficit as of January 1, 2002. Although we have completed the initial assessment, the effort required to measure the impairment to comply with this section will not be completed until the end of 2002. As at December 31, 2001, the Company had unamortized goodwill of \$524,432. Based on current estimates, the Company currently believes the goodwill impairment could be approximately \$502,000, of which approximately \$462,000 would be charged to opening deficit as at January 1, 2002.

For the three-month period and the nine-month period ended September 30, 2001, this change in accounting policy would have resulted in a reduction of \$7,597 and \$22,789 respectively in amortization expense related to goodwill.

3. Long-term debt

During the quarter, the company contracted the following new long-term debts:

- \$3,000,000 in debentures bearing an annual interest rate of 12% and convertible into common shares of the Company. The interest on the debentures are capitalized and added to the debentures for the period from July 2002 to June 2003. Accordingly, an amount of \$80,876 was capitalized as at September 30th, 2002;
- \$662,407 for two capital leases bearing an annual interest rate of 9% and repayable in 60 monthly payments, the first lease provides for monthly payments (capital & interest) of \$6,832 for the period from October 2002 to September 2007 and the second lease provides for monthly payments of \$6,919 for the period from March 2003 to February 2008.

4. 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.

- b) **Issued**

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

2002	Three months ended Sept. 30, 2002		Nine months ended Sept. 30,	
	Number	Amount \$	Number	Amount \$
Balance, beginning of period	24,534,550	9,605,538	22,434,550	7,637,205
Issued as part of transactions	17,016,000	17,856,400	19,116,000	20,061,400
Costs of issuance	-	(323,924)	-	(560,591)
Balance, end of period	<u>41,550,550</u>	<u>27,138,014</u>	<u>41,550,550</u>	<u>27,138,014</u>

- c) **Common stock option plan**

The Company has in place an Incentive Stock Option Plan. The Plan provides that the terms of the option and the option price shall be fixed by the directors, subject to the price restrictions imposed by the TSX Venture Exchange. The stock options are granted only to directors, officers, employees and other key personnel of the Company or its subsidiaries and only upon the recommendation of the directors of the Company.

The maximum number of common shares that are issuable under the Plan cannot exceed 10% of the number of outstanding common shares.

Stock options granted under the Incentive Stock Option Plan may not be for a period longer than 5 years and the exercise price must be paid in full upon exercise.

As at September 30, 2002, the Company has granted options to purchase 1,517,950 common shares at various exercise prices, each pursuant to the Incentive Stock Option Plan of the Company, expiring no later than the year 2007.

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

	Three month ended September 2002	Nine month ended September 2002
Balance, beginning of year	1,463,950	1,394,950
Granted	75,000	197,000
Exercised	(16,000)	(16,000)
Cancelled	<u>(5,000)</u>	<u>(58,000)</u>
	<u>1,517,950</u>	<u>1,517,950</u>

Stock options outstanding are as follows:

<u>Exercise price</u>	<u>2002</u>
0.15	626,000
0.40	351,950
0.80	75,000
1.00	145,000
1.05	93,000
1.07	29,000
1.10	63,000
1.25	75,000
1.26	10,000
1.50	45,000
1.70	<u>5,000</u>
	<u>1,517,950</u>

d) Share warrants

The changes to the number of warrants outstanding are as follows:

	Three month ended September 2002	Nine month ended September 2002
Balance, beginning of year	4,200,001	4,100,000
Granted	4,607,143	5,957,143
Cancelled	<u>(1,750,001)</u>	<u>(3,000,000)</u>
	<u>7,057,143</u>	<u>7,057,143</u>

The share warrants expire as follows:

Exercise price (\$)	Date	Number
1.05	September 12, 2003	200,000
1.50	December 12, 2003	1,100,000
1.50	March 12, 2004	1,150,000
1.50	July 10, 2004	<u>4,607,143</u>
		<u>7,057,143</u>

5. Segmented information

For the three months ended September 30, 2002, the company operated in the following sectors:

	Revenue (\$)	Net operating earnings (loss) ⁽¹⁾ (\$)	Amortization (\$)	Capital assets and goodwill (\$)	Total assets (\$)
Analytical services	897,374	120,011	73,567	1,173,911	2,868,789
Bioanalytical services	635,320	407,097	19,445	1,049,203	1,984,004
Forensic consulting	109,791	(28,070)	1,892	67,920	344,169
Research and development	51	(536,612)	82,719	8,919,086	1,924,752
Management services	<u>78,983</u>	<u>(502,926)</u>	<u>39,584</u>	<u>1,134,555</u>	<u>28,544,106</u>
	<u>1,721,519</u>	<u>(540,500)</u>	<u>217,207</u>	<u>12,556,486</u>	35,691,180
Inter-segment					<u>(7,228,244)</u>
					<u>28,462,936</u>

⁽¹⁾ Net operating earnings represent net earnings (loss) without the inter-company management fees.

For the nine months ended September 30, 2002, the company operated in the following sectors:

	Revenue (\$)	Net operating earnings (loss) ⁽¹⁾ (\$)	Amortization (\$)	Capital assets and goodwill (\$)	Total assets (\$)
Analytical services	2,748,038	556,980	210,778	1,406,614	2,894,149
Bioanalytical services	1,488,316	957,344	45,555	1,049,203	1,984,004
Forensic consulting	392,568	(5,701)	5,670	67,920	344,169
Research and development	42,399	(1,262,601)	178,056	8,919,086	1,924,752
Management services	<u>103,996</u>	<u>(1,371,975)</u>	<u>98,918</u>	<u>1,134,555</u>	<u>28,544,106</u>
	<u>4,775,317</u>	<u>(1,125,953)</u>	<u>538,977</u>	<u>12,556,486</u>	35,691,180
Inter-segment					<u>(7,228,244)</u>
					<u>28,462,936</u>

⁽¹⁾ Net operating earnings represent net earnings (loss) without the inter-company management fees.

6. Subsequent events

On November 8, 2002, subsequent to the end of the quarter, the company announced that it is divesting its forensic consulting subsidiary, G.I.T.E. The Company has agreed to sell certain assets to various executives associated with G.I.T.E. who intend to operate the business as an independent ongoing concern.

This decision will not have any material impact on Warnex's overall financial performance. G.I.T.E. represented 8% of total corporate revenues and operated on a breakeven basis. Moreover, G.I.T.E.'s operations were not complementary to Warnex's core expertise in quality control analytical services, or to the immediate commercialization efforts for its Genevision's technology.