

WARNEX INC.

INTERIM CONSOLIDATED BALANCE SHEET
(Unaudited)

	June 30 2002	December 31 2001
Assets		
Current		
Cash and short-term investments	\$ 2,668,547	\$ 2,446,676
Accounts receivable	1,041,264	602,519
Work-in-progress	127,306	70,917
Income taxes receivable	369,357	377,525
Prepaid expenses	61,641	57,554
	4,268,115	3,555,191
Capital assets	3,175,236	1,952,761
Trademarks	60,000	65,000
Goodwill	524,432	524,432
	\$ 8,027,783	\$ 6,097,384
Liabilities		
Current		
Bank indebtedness	\$ 249,578	\$ 274,617
Accounts payable	1,536,146	909,249
Deferred Revenue	60,423	37,605
Current portion of long-term debt	203,176	209,241
	2,049,323	1,430,712
Loan payable	225,000	250,000
Long-term debt	431,358	477,450
	2,705,681	2,158,162
Shareholders' equity		
Capital stock	9,605,538	7,637,205
Deficit	(4,283,436)	(3,697,983)
	5,322,102	3,939,222
	\$ 8,027,783	\$ 6,097,384

WARNEX INC.

INTERIM CONSOLIDATED STATEMENT OF EARNINGS
(Unaudited)

	Three months ended June 30		Six months ended June 30	
	2002	2001	2002	2001
Revenue	\$1,674,151	\$1,061,170	\$3,053,798	\$1,868,939
Cost of goods sold	871,693	895,666	1,634,327	1,395,172
Gross margin	802,458	165,504	1,419,471	473,767
Operating expenses				
Selling, general and administrative	618,432	322,243	1,193,558	703,775
Finance charges	19,745	20,852	44,828	36,689
	638,177	343,095	1,238,386	740,464
Profit (Loss) before the undernoted items	164,281	(177,591)	181,085	(266,697)
Research expenditures, net of tax credits	427,268	234,530	766,538	406,734
Net loss	\$ 262,987	\$ 412,121	\$ 585,453	\$ 673,431
Net loss per share	\$ 0.01	\$ 0.02	\$ 0.02	\$ 0.04

WARNEX INC.

INTERIM CONSOLIDATED STATEMENT OF DEFICIT
(Unaudited)

	Three months ended June 30		Six months ended June 30	
	2002	2001	2002	2001
Balance, beginning of period	\$(4,020,449)	\$(1,992,509)	\$(3,697,983)	\$(1,731,199)
Net loss	262,987	412,121	585,453	673,431
Balance, end of period	\$(4,283,436)	\$(2,404,630)	\$(4,283,436)	\$(2,404,630)

WARNEX INC.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

	Three months ended June 30		Six months ended June 30	
	2002	2001	2002	2001
Operations				
Net loss	\$ (262,987)	\$ (412,121)	\$ (585,453)	\$ (673,431)
Items not affecting cash:				
Amortization	183,927	95,766	321,771	176,207
Loss on disposal of capital assets	0	952	0	952
	(79,060)	(315,403)	(263,682)	(496,272)
Net change in non-cash working capital items	314,099	127,916	158,662	41,283
	235,039	(187,487)	(105,020)	(454,989)
Financing activities				
Increase (decrease) in bank loans	0	37,712	0	(19,236)
Increase (decrease) in loan payable	(25,000)	0	(25,000)	150,000
Proceeds from (repayment of) long-term debt	1,967	139,417	(52,157)	384,208
Issue of shares	0	24,189	2,205,000	2,539,189
Cost of issuance	(5,529)	0	(236,667)	0
	(28,562)	201,318	1,891,176	3,054,161
Investing activities				
Acquisition of capital assets	(966,010)	(405,416)	(1,539,246)	(506,207)
	(966,010)	(405,416)	(1,539,246)	(506,207)
Increase (decrease) in cash and cash equivalents	(759,533)	(391,585)	246,910	2,092,965
Cash and cash equivalents, beginning of period	3,178,502	2,516,713	2,172,059	32,163
Cash and cash equivalents, end of period	\$2,418,969	\$2,125,128	\$2,418,969	\$2,125,128

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 standards modifying the method of accounting for goodwill. The new standards on goodwill have to be applied for fiscal years beginning on or after January 1, 2002. Accordingly, the Company no longer amortizes its goodwill but evaluates goodwill for impairment at least annually.

For the six-month period ended June 30, 2001, the Company recorded amortization of goodwill in the amount of \$15,192.

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.

- b) **Issued**

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

	<u>2002</u>	
	<u>Number</u>	<u>Amount</u>
		\$
Balance, beginning of period	22,434,550	7,637,205
Issued as part of transactions	2,100,000	2,205,000
Costs of issuance	-	(236,667)
Balance, end of period	24,534,550	9,605,538

- 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 June 30, 2002, the Company has granted options to purchase 1,464,950 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:

	<u>2002</u>
Balance, beginning of year	1,394,950
Granted	123,000
Exercised	-
Cancelled	<u>(53,000)</u>
Balance, end of the period	<u>1,464,950</u>

Stock options outstanding are as follows:

<u>Exercise price</u>	<u>2002</u>	
0.15		626,000
0.40		367,950
1.00	145,000	
1.05	93,000	
1.07	29,000	
1.10	67,000	
1.25	75,000	
1.26	12,000	
1.50	45,000	
1.70	<u>5,000</u>	
	<u>1,464,950</u>	

d) Share warrants

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

Balance, beginning of the year	4,100,000
Granted	1,350,000
Cancelled	<u>(1,249,999)</u>
Balance, end of period	<u>4,200,001</u>

The share warrants expire as follows:

<u>Exercise price</u>	<u>Date</u>	<u>Number</u>
1.50	August 27, 2002	1,500,001
1.00	February 27, 2003	250,000
1.05	September 12, 2003	200,000
1.50	December 12, 2003	1,100,000
1.50	March 12, 2004	1,050,000
1.50	September 12, 2005	<u>100,000</u>
		<u>4,200,001</u>

4. Subsequent events

Subsequent to the end of the quarter, the following transactions occurred:

- 1) On July 10, 2002, the Company acquired the 35% interest in the shares of Genevision Inc. held by 9066-2032 Québec Inc. ("9066") for a total consideration of \$7,350,000. Following this transaction, Genevision Inc. became a wholly owned subsidiary of Warnex.

The consideration of \$7,350,000 was paid by the issuance of 7,000,000 common shares of the Company at a price of \$1.05 per share and by the issuance of 1,750,000 common share purchase warrants. Each common share purchase warrant grants its holder the right to subscribe to one common share of Warnex at a price of \$1.50 per share for a period of two years following the closing of the transaction. Of the 7,000,000 shares issued, 5,250,000 are held in escrow and shall be released subject to milestones related to obtaining regulatory approvals required for commercialisation of the Genevision technology, as well as reaching certain commercial objectives.

- 2) On July 10, 2002, the Company completed a private placement in the amount of \$1,500,000. This offering consisted of \$1.05 per unit. A unit consists of:
 - i) One common share
 - ii) 0.50 of a common share purchase warrant. Each whole common share purchase warrant entitles the holder to acquire one common share at an exercise price of \$1.50 for a period of two years following the closing date.
- 3) On July 10, 2002, the Company also completed a financing for \$12 million made up of \$9,000,000 in units and \$3,000,000 in convertible debentures.

The subscription price for each unit was \$1.05 and a unit consists of:

- i) One common share
- ii) 0.25 of a common share purchase warrant. Each whole common share purchase warrant grants the holder the right to subscribe to one common share of the Company at an exercise price of \$1.50 for a period of two years following the closing date.

According to the term of this transaction, 8,571,428 common shares were issued, representing 20,64% of the issued and outstanding shares in the capital of the Company as well as 2,142,857 common share purchase warrants.

The \$3,000,000 convertible debentures bear an annual interest rate of 12% and are convertible into common shares of the Company.