

WARNEX INC.**INTERIM CONSOLIDATED BALANCE SHEET
(Unaudited)**

	March 31	December 31
	2002	2001
Assets		
Current		
Cash and short-term investments	\$ 3,364,950	\$ 2,446,676
Accounts receivable	1,104,666	602,519
Work-in-progress	84,261	70,917
Income taxes receivable	411,765	377,525
Prepaid expenses	35,721	57,554
	5,001,363	3,555,191
Capital assets	2,390,653	1,952,761
Trademarks	62,500	65,000
Goodwill	524,432	524,432
	\$ 7,978,948	\$ 6,097,384
Liabilities		
Current		
Bank indebtedness	\$ 186,447	\$ 274,617
Accounts payable	1,237,032	909,249
Deferred Revenue	82,284	37,605
Current portion of long-term debt	196,779	209,241
	1,702,542	1,430,712
Loan payable	250,000	250,000
Long-term debt	435,788	477,450
	2,388,330	2,158,162
Shareholders' equity		
Capital stock	9,611,067	7,637,205
Deficit	(4,020,449)	(3,697,983)
	5,590,618	3,939,222
	\$ 7,978,948	\$ 6,097,384

WARNEX INC.

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

For three months ended March 31	2002	2001
Revenue	\$ 1,379,646	\$ 807,769
Cost of goods sold	762,633	563,074
Gross margin	617,013	244,695
Operating expenses		
Selling, general and administrative	575,126	317,964
Finance charges	25,083	15,837
	600,209	333,801
Profit (Loss) before the undernoted items	16,804	(89,106)
Research expenditures, net of tax credits	339,270	172,204
Net loss	\$ (322,466)	\$ (261,310)
Net loss per share	\$ (0.01)	\$ (0.01)

WARNEX INC.

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

For three months ended March 31	2002	2001
Balance, beginning of period	\$ (3,697,983)	\$ (1,731,199)
Net loss	(322,466)	(261,310)
Balance, end of period	\$ (4,020,449)	\$ (1,992,509)

WARNEX INC.**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)**

For three months ended March 31	2002	2001
Operations		
Net loss	\$ (322,466)	\$ (261,310)
Items not affecting cash:		
Amortization	137,843	80,441
Loss on disposal of capital assets	0	0
	(184,623)	(180,869)
Net change in non-cash working capital items	(155,437)	(86,633)
	(340,060)	(267,502)
Financing activities		
Increase (decrease) in bank loans	0	(56,948)
Increase (decrease) in loan payable	0	150,000
Proceeds from (repayment of) long-term debt	(54,124)	244,791
Issue of shares	2,205,000	2,515,000
Cost of issuance	(231,138)	0
	1,919,738	2,852,843
Investing activities		
Acquisition of capital assets	(573,235)	(100,791)
	(573,235)	(100,791)
Increase (decrease) in cash and cash equivalents	1,006,443	2,484,550
Cash and cash equivalents, beginning of period	2,172,059	32,163
Cash and cash equivalents, end of period	\$ 3,178,502	\$ 2,516,713

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 three-month period ended March 31, 2001, the Company recorded amortization of goodwill in the amount of \$7,596.

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:

	2002	
	Number	Amount
		\$
Balance, beginning of period	22,434,550	7,637,205
Issued as part of transactions	2,100,000	2,205,000
Costs of issuance	<u>-</u>	<u>(231,138)</u>
Balance, end of period	24,534,550	9,611,067

c) **Share warrants**

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

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

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>
		4,200,001