

WARNEX INC.Quarterly Report to Shareholders for the 3rd Quarter Ended September 30, 2001

BC FORM 51-901F**QUARTERLY REPORT**

Incorporated as part of:

Schedule A

Schedule B & C

ISSUER DETAILS:

Name of Issuer	WARNEX INC
For Quarter Ended	September 30, 2001
Date of Report	November 29, 2001
Issuer Address	3885 Industriel Blvd
Issuer Fax Number	(450) 669-2784
Issuer Telephone Number	(450) 663-6724
Contact Name	Mark J. Busgang
Contact Position	President and CEO
Contact Telephone Number	(450) 663-6724
Contact Email Address	mbugang@warnex.ca
Web Site Address	www.warnex.ca

CERTIFICATE

THE THREE SCHEDULES REQUIRED TO COMPLETE THIS REPORT ARE ATTACHED AND THE DISCLOSURE CONTAINED THEREIN HAS BEEN APPROVED BY THE BOARD OF DIRECTORS. A COPY OF THIS REPORT WILL BE PROVIDED TO ANY SHAREHOLDER WHO REQUESTS IT.

Mark J. Busgang	<i>"Mark Busgang"</i>	November 29 th , 2001
Name of Director	<i>Sign</i>	Date Signed (YY/MM/DD)

Richard Laferrière	<i>"Richard Laferrière"</i>	November 29 th , 2001
Name of Director	<i>Sign</i>	Date Signed (YY/MM/DD)

WARNEX INC.Quarterly Report to Shareholders for the 3rd Quarter Ended September 30, 2001**SCHEDULE A: FINANCIAL STATEMENTS****WARNEX INC.****CONSOLIDATED INTERIM BALANCE SHEET**

(Unaudited)

As at September 30	2001	2000
Assets		
Current		
Cash and short-term investments	\$ 1,429,267	\$ 104,095
Accounts receivable	725,583	938,717
Work-in-progress	62,129	143,951
Income taxes receivable	273,604	41,130
Prepaid expenses	23,282	17,764
	2,513,865	1,245,657
Loan receivable	0	300,000
Capital assets	1,775,082	1,245,514
Trademarks	67,503	77,502
Goodwill	532,028	443,877
Organization costs	2,400	0
	\$ 4,890,878	\$ 3,312,550
Liabilities		
Current		
Bank loans	\$ 289,692	\$ 175,000
Accounts payable	991,478	714,598
Current portion of long-term debt	182,776	130,000
	1,463,946	1,019,598
Deferred revenue	0	140,000
Loans payable	250,000	0
Long-term debt	549,646	255,484
Future income taxes	0	4,000
	2,263,592	1,419,082
Minority Interest	0	35
Shareholders' equity		
Capital stock	5,497,384	2,887,305
Deficit	(2,870,098)	(993,872)
	2,627,286	1,893,433
	\$ 4,890,878	\$ 3,312,550

WARNEX INC.Quarterly Report to Shareholders for the 3rd Quarter Ended September 30, 2001

WARNEX INC.**CONSOLIDATED INTERIM STATEMENT OF EARNINGS AND DEFICIT**
(Unaudited)

	Three months ended September 30		Nine months ended September 30	
	2001	2000	2001	2000
Revenue	\$ 872,375	\$ 690,243	\$ 2,741,314	\$ 1,916,264
Cost of goods sold	654,499	380,245	2,049,671	1,198,261
Gross margin	217,876	309,998	691,643	718,003
Operating expenses	432,590	357,225	1,173,054	955,061
Loss before undernoted items	(214,714)	(47,227)	(481,411)	(237,058)
Research and development expenditures, net of tax credits	250,754	85,902	657,488	85,902
Net Loss	\$ (465,468)	\$ (133,129)	\$ (1,138,899)	\$ (322,960)
Deficit, beginning of period	(2,404,630)	(860,743)	(1,731,199)	(670,912)
Deficit, end of period	\$ (2,870,098)	\$ (993,872)	\$ (2,870,098)	\$ (993,872)
Net loss per share	\$ (0.02)	\$ (0.01)	\$ (0.06)	\$ (0.02)

WARNEX INC.Quarterly Report to Shareholders for the 3rd Quarter Ended September 30, 2001**WARNEX INC.****CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS**
(Unaudited)

	Three months ended September 30		Nine months ended September 30	
	2001	2000	2001	2000
Operations				
Net loss	\$ (465,468)	\$ (133,129)	\$ (1,138,899)	\$ (322,960)
Items not affecting cash:				
Amortization	85,043	59,021	261,250	226,395
Loss on disposal of capital assets	0	0	952	0
	(380,425)	(74,108)	(876,697)	(96,565)
Net change in non-cash working capital items	(152,450)	(460,084)	(111,167)	(396,696)
	(532,875)	(534,192)	(987,864)	(493,261)
Financing activities				
Increase (decrease) in bank loans	63,928	(157,500)	44,692	(85,000)
Decrease in long-term accounts payable	0	0	0	(299,224)
Increase (decrease) in loans payable	(3,083)	(256,668)	146,917	0
Proceeds from (repayment of) long-term debt	4,615	62,335	388,823	43,817
Proceeds from issue of capital stock	23,930	1,500,371	2,563,119	1,579,561
Minority interest	0	35	0	35
Deferred revenue	0	140,000	0	140,000
Deferred income taxes	0	0	0	4,000
	89,390	1,288,573	3,143,551	1,383,189
Investing activities				
Decrease in marketable securities	0	0	0	128,567
Acquisition of capital assets	(252,376)	(294,179)	(758,583)	(446,531)
Acquisition of goodwill	0	6,668	0	(177,627)
Increase in loan receivable	0	(197,420)	0	(300,000)
	(252,376)	(484,931)	(758,583)	(795,591)
Increase in cash position	(695,861)	269,450	1,397,104	94,337
Cash position, beginning of period	2,125,128	(165,355)	32,163	9,758
Cash position, end of period	\$ 1,429,267	\$ 104,095	\$ 1,429,267	\$ 104,095

WARNEX INC.Quarterly Report to Shareholders for the 3rd Quarter Ended September 30, 2001

SCHEDULE B: SUPPLEMENTAL INFORMATION*1. Analysis of expenses and deferred costs:*

See Financial Statements.

2. Related party transactions:

The Corporation entered into a lease with Busgang Realty Inc., a company controlled by Mark Busgang, which calls for annual minimum payments of \$160,000.

3. Summary of securities issued and options granted during the period ended September 30, 2001

a) Summary of securities issued during the period:

Consideration	Type of security	Quantity	Price	Date	Type of issue
Cash	Common shares	5,450	\$0.40	July 23, 2001	Exercise of options
Cash	Common shares	145,000	\$0.15	Aug. 27, 2001	Exercise of options

b) Options/warrants granted during the period:

Name of Optionee	No. of Options	Price	Date of Grant	Expiry Date
Luc Germain	10,000	\$1.00	September 4, 2001	September 4, 2006

4. Summary of securities as at September 30, 2001

a) Authorized share capital: 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) Number and recorded value for shares issued and outstanding:

<u>Issued and outstanding</u>	<u>No. of shares</u>	<u>Amount</u>
Balance, September 30, 2001	20,194,550	\$5,497,384

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- c) Description of options, warrants and convertible securities outstanding:

Options

No. of Optioned Shares Remaining	Exercise Price	Original Date of Grant	Expiry Date
536,000	\$0.15	May 29, 1998	May 29, 2003
90,000	\$0.15	June 5, 1998	June 5, 2003
62,500	\$0.40	June 15, 2000	June 15, 2005
190,000	\$0.40	June 19, 2000	June 19, 2005
75,000	\$0.40	August 4, 2000	August 4, 2005
80,450	\$0.40	September 25, 2000	September 25, 2005
90,000	\$1.50	March 22, 2001	March 22, 2006
5,000	\$1.70	March 26, 2001	March 26, 2006
75,000	\$1.25	May 24, 2001	May 24, 2006
76,000	\$1.10	June 30, 2001	June 30, 2006
10,000	\$1.00	September 4, 2001	September 4, 2006

Warrants

2,500,000 warrants at \$1.50 per warrant, 1,250,000 expiring February 28, 2002 and 1,250,000 expiring August 28, 2002.

Convertible Securities

Nil

- d)
- Total Number of Shares in Escrow

300,000 shares

5. *List of directors and officers as of September 30, 2001*

Richard Laferrière	Chairman of the Board
Mark J. Busgang	President and Chief Executive Officer and Director
Christian Archambault	Executive Vice-President and Director
Warren H. Haber	Director
Louis Lacasse	Director
Terrence Mailloux	Director
Hubert Marleau	Director
Barry Schwartz	Director
Jacques Gagné	Director
Sylvain Chrétien	Director
Carolyne Lassonde	Secretary
Denis Pellerin	CFO

WARNEX INC.

Quarterly Report to Shareholders for the 3rd Quarter Ended September 30, 2001

SCHEDULE C : MANAGEMENT DISCUSSION

DESCRIPTION OF BUSINESS

Management's Discussion and Analysis

The third quarter of 2001 has seen continued progress towards our goal of creating a successful biotechnology company.

Our Genevision technology continues to progress exceptionally well. We are continuing to meet all of our milestones on time and within budget. Subsequent to the end of the quarter, we launched our first product, the "Sclerotest™", a unique process for detecting *Gremmeniella abietina*, a fungus affecting forests in Europe and North America. This test demonstrates the ability of our Genevision technology to rapidly and economically detect pathogens and to provide a useful tool to protect against contamination in the environment and in the food chain.

Our operating companies continue to progress extremely well. The new management team in our Life Sciences Group has performed extremely well and the group should continue to see significant growth both in revenues and profitability. The Consulting Group showed excellent results with significant revenue and profit growth.

Subsequent to the quarter, we announced a letter of intent with Desjardins Securities to raise up to \$6,000,000. The additional funds will allow us to complete all our regulatory affairs and validation, which are required to successfully roll out our complete detection platform in early 2003.

As well, we signed a Memorandum of Understanding with SGF Soquia Inc. to evaluate a potential investment by the SGF Soquia into the commercialization of Warnex's Genevision technology.

We expect to continue to build on the progress made in the first nine months of the year and are looking forward to continued excitement and progress in the coming months.

FINANCIAL RESULTS

Consolidated revenues rose to \$872,375 for the quarter, compared to \$690,243 for the same period in 2000. Consolidated revenues for the nine-month period ended June 30, 2001 reached record levels of \$2,741,314 compared to \$1,916,264 in 2000. This increase is due to continuing growth in all of our operating sectors.

Selling general and administrative expenses for the quarter and nine months respectively amounted to \$409,132 and \$1,112,898 compared to \$357,225 and \$955,061 in 2000. The increase results primarily from the addition of personnel in administration and finance spread across all sectors of our organization.

Research and development expenditures net of tax credits for the quarter amounted to \$250,754 compared to \$85,902 in 2000. This reflects our continuing investment in our Genevision technology as well as research efforts in our new bio-analytical subsidiary.

The consolidated financial statements for the quarter and nine months show a loss of \$465,468 or \$0.02 per share and \$1,138,899 or \$0.06 per share compared to a loss of \$133,129 or \$0.01 per share and \$322,960 or \$0.02 per share compared to the same periods last year.

Revenues, expenses and loss were all on budget and reflect the increasing investment in Genevision. The first Genevision product that launched on November 27, 2001 will begin to contribute to our revenues in 2002. The full launch of the testing platform is expected in the first quarter of 2003 and will contribute significant revenue and profit during the 2003 fiscal year.

As of September 30, 2001, the company had on hand cash, cash equivalents and tax credits amounting to \$1,702,871.