

WARNEX INC.Quarterly Report to Shareholders for the 2nd Quarter Ended June 30, 2001**SCHEDULE A: FINANCIAL STATEMENTS****WARNEX INC.****CONSOLIDATED INTERIM BALANCE SHEET
(Unaudited)**

For the six months ended June 30	2001	2000
Assets		
Current		
Cash and short-term investments	\$ 2,125,128	\$ -
Accounts receivable	848,228	589,433
Work-in-progress	112,979	118,578
Income taxes receivable	239,440	26,110
Prepaid expenses	30,791	24,059
	3,356,566	758,180
Loan Receivable	-	102,580
Capital assets	1,597,653	1,004,108
Trademarks	70,002	80,001
Goodwill	539,625	454,294
Organization costs	2,400	-
	\$ 5,566,246	\$ 2,399,163
Liabilities		
Current		
Bank loans	\$ 225,764	\$ 497,855
Accounts payable	1,290,768	791,300
Current portion of long-term debt	182,776	100,000
	1,699,308	1,389,155
Loans Payable	253,083	256,668
Long-term debts	545,031	223,149
Deferred income taxes	-	4,000
	2,497,422	1,872,972
Shareholders' equity		
Capital stock	5,473,454	1,386,934
Deficit	(2,404,630)	(860,743)
	3,068,824	526,191
	\$ 5,566,246	\$ 2,399,163

WARNEX INC.Quarterly Report to Shareholders for the 2nd Quarter Ended June 30, 2001

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

	Three months ended June 30		Six months ended June 30	
	2001	2000	2001	2000
Sales	\$ 1,061,170	\$ 623,085	\$ 1,868,939	\$ 1,226,021
Cost of goods sold	895,666	359,870	1,395,172	818,016
Gross margin	165,504	263,215	473,767	408,005
Selling, General & Administrative Expenses	343,095	398,598	740,465	597,836
Loss before the undernoted items	(177,591)	(135,383)	(266,697)	(189,831)
Research expenditures net of tax credits	234,530	-	406,734	-
Net Loss	\$ (412,121)	\$ (135,383)	\$ (673,431)	\$ (189,831)
Deficit, beginning of period	(1,992,509)	(725,360)	(1,731,199)	(670,912)
Deficit, end of period	\$(2,404,630)	\$ (860,743)	\$ (2,404,630)	\$ (860,743)
Net loss per share	\$ (0.02)	\$ (0.01)	\$ (0.04)	\$ (0.01)

WARNEX INC.Quarterly Report to Shareholders for the 2nd Quarter Ended June 30, 2001**WARNEX INC.****CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS**
(Unaudited)

	Three months ended June 30		Six months ended June 30	
	2001	2000	2001	2000
Operations				
Net loss	\$ (412,121)	\$ (135,383)	\$ (673,431)	\$ (189,831)
Items not affecting cash:				
Amortization	95,766	96,704	176,207	167,374
Loss on disposal of capital assets	952	-	952	-
	(315,403)	(38,679)	(496,272)	(22,457)
Net change in non-cash working capital items	127,916	9,363	41,283	63,388
	(187,487)	(29,316)	(454,989)	40,931
Financing activities				
Increase (decrease) in bank loan	37,712	147,500	(19,236)	72,500
Long-term accounts payable	0	-	0	(299,224)
Increase (decrease) in loans payable	0	6,668	150,000	256,668
Long-term debt	139,417	6,481	384,208	(18,518)
Proceeds from issue of capital stock	24,189	79,190	2,539,189	79,190
Deferred income taxes	0	4,000	0	4,000
	201,318	243,839	3,054,161	94,616
Investing activities				
Decrease in marketable securities	0	0	0	128,567
Acquisition of capital assets	(405,416)	(131,689)	(506,207)	(152,352)
Acquisition of Goodwill	0	(184,295)	0	(184,295)
Loan receivable, related companies	0	(2,580)	0	(2,580)
Loan receivable	0	(100,000)	0	(100,000)
	(405,416)	(418,564)	(506,207)	(310,660)
Increase in cash position	(391,585)	(204,041)	2,092,965	(175,113)
Cash position, beginning of period	2,516,713	38,686	32,163	9,758
Cash position, end of period	\$ 2,125,128	\$ (165,355)	\$ 2,125,128	\$ (165,355)