

Laboratory Services
Our roots... our future.



Sample

Test

Report

A lab is a lab is a lab. The process, whether we're testing patients, drugs or consumer products, remains the same: **sample, test, report.** It's how we've grown our business in the past, by providing reliable and consistent results. It's how we'll continue to grow it in the future.

Management's Discussion and Analysis

Management's discussion and analysis provides a review of the performance of our Company and should be read in conjunction with the unaudited financial statements for the quarter ended March 31, 2008, and the related notes appearing elsewhere in this document. This discussion and analysis compares the performance for the first quarter of 2008 with that of 2007 and also discloses additional information to help better understand our business. This includes a review of the opportunities, issues, and risks that may impact future operations.

The enclosed financial statements have been prepared in accordance with the Canadian generally accepted accounting principles (GAAP). All figures are in Canadian dollars unless otherwise indicated.

Additional information relating to our Company, including the Annual Information Form (AIF), is available on SEDAR at www.sedar.com.

Forward-Looking Statements

Certain statements contained in this Management's Discussion and Analysis are forward-looking and are subject to numerous risks and uncertainties, known and unknown. For information identifying known risks and uncertainties, relating to financial resources, government regulations, laboratory facilities, suppliers, employees, key customers and business partners, foreign currency risk, credit risk, liquidity risk, volatility of share price, and other important factors that could cause actual results to differ materially from those anticipated in the forward-looking statements, please refer to the Risk and Uncertainties Section of this Management's Discussion and Analysis. Consequently, actual results may differ materially from the anticipated results expressed in these forward-looking statements.

Overview

Warnex is a life sciences company devoted to protecting public health by providing laboratory services to the pharmaceutical and healthcare sectors. Warnex's analytical services division provides pharmaceutical and biotechnology companies with a variety of quality control services, including traditional chemistry, chromatography, microbiology, method development and validation, and stability studies. Warnex's bioanalytical services division specializes in bioequivalence and bioavailability studies for clinical trials. Warnex's medical laboratories division focuses on genetic and biochemical testing for the healthcare industry and has extensive expertise in genetic testing for human identification, molecular diagnostics, and pharmacogenetics. The Company's common stock is traded on the Toronto Stock Exchange, under the symbol WNX.

Until the last quarter of 2006, Warnex was also focused on the research, development, production and distribution of DNA-based quality control products for the agri-food industry. During the last quarter of 2006, we made the decision to divest of the Diagnostics division since it required a wider distribution platform than we could provide and additional funding to achieve its full commercial potential. The assets of this division were sold, effective June 28, 2007.

Looking forward, our goal is to focus on our laboratory services divisions. The analytical, bioanalytical and medical laboratory divisions have always been profitable and have generated a strong 5-year compound annual revenue growth rate of 31%. With two acquisitions completed in 2006, we look forward to strong organic growth as well as additional acquisitions in the laboratory services sector.

Strategic Business Units

Our operations are organized into these strategic business units:

Business Unit	Activity
Analytical Services	Provides quality control services to the pharmaceutical and biotechnology industries, including traditional chemistry, chromatography, microbiology, method development and validation, and stability studies. This includes assessing the physical, chemical and microbiological properties of individual ingredients in addition to verifying the active ingredient content of finished products.
Bioanalytical Services	Assists both innovator and generic pharmaceutical companies as well as biotechnology companies in their development of new pharmaceutical products by conducting bioavailability and bioequivalence studies for clinical trials and by performing contract R&D.
Medical Laboratories	Provides specialized laboratory testing services to the healthcare sector, including the Prenatest® prenatal screening test, which enables pregnant women to find out their risk of carrying a foetus that may be affected by Trisomy 21 (Down syndrome), Trisomy 18 and other chromosomal anomalies. This division also offers genetic testing and pharmacogenetic services through the acquisition of PRO-DNA Diagnostics Inc. in 2006
Discontinued DNA Detection Technology operations	Commercialized, manufactured and performed research and development of Warnex's DNA-based quality control products for the agri-food industry.

Corporate Highlights

Operating Highlights

- First quarter revenues of \$6.1 million, similar to last year's record revenues for a first quarter of \$6.2 million
- Reduced the net loss from continuing operations to \$0.3 million during the quarter (2007 - \$0.4 million)
- Signed agreements in principle with the various holders of all of our outstanding debentures, aggregating \$11,345,000 in principal amount, in order to modify the terms and conditions of such debentures. The agreements in principle include the following elements:
 - Elimination of the fixed conversion rate of 1.369 contained in the US dollar denominated debentures, therefore reducing the principal debt from CDN\$6,845,000 to US\$5,000,000;
 - Conversion of an aggregate of \$1,833,334 in principal into common shares of Warnex;
 - Repayment of an aggregate of \$1,333,333 in principal upon closing;
 - Deferral of an aggregate of \$6,333,333 in principal for three additional years;
 - Increase of the interest rate on the US dollar denominated debentures to 12% per annum;
 - Reduction in the exercise price of 3,963,729 warrants to \$0.25 and the extension of the term of 1,570,983 warrants by two years.
- Signed a 10-year lease with Busgang Investments Inc. to lease 44,073 square feet of space in our existing premises at 865 Michèle-Bohec Blvd., Blainville, Quebec. The new lease was entered into following the purchase of the building by Busgang Investments Inc., a private company controlled by Mark Busgang, President, CEO and Director of Warnex. Since our lease with MDS was expiring in February 2008, this new lease for our Blainville site has allowed us to secure these laboratory facilities for our Neopharm Laboratories division, which was acquired from MDS Pharma Services in August 2006. In addition, the lease for our facilities located at 3885 Industriel Blvd., Laval, Quebec, has been

extended to January 31, 2018. This will allow Warnex to fully benefit from past investments of over \$5 million in laboratory facilities and infrastructure.

- Launched a new testing service for prostate cancer, the PCA3 assay. The Warnex PCA3 test for prostate cancer uses advanced PCR technology to detect mRNA from the prostate cancer gene 3 (PCA3). It is highly specific and more precise than all other available screening tests for prostate cancer. Warnex is the first laboratory to offer this service in Canada. The addition of this test to Warnex Medical Laboratories' service offering is part of our strategy to focus on specialized medical testing for the healthcare industry using advanced technologies.
- Obtained a licence from Xenomics for an acute myeloid leukemia test. Warnex will offer NPM1 testing in Canada as a laboratory service for the diagnosis, stratification and monitoring of patients with acute myeloid leukemia.
- Obtained a waiver from SIPAR Inc. for the Company's quarterly capital repayment of \$500,000 which was due on January 3, 2008. This accommodation was requested to allow us to conclude our financing arrangements.
- Restated the comparative results for the first quarter of 2007 to retroactively correct an error in the presentation of the debt component of the 2002 and 2004 convertible debentures.

Balance Sheet

- Total assets of \$16.5 million and shareholders' deficiency of \$1.3 million
- \$0.2 million invested in property, plant and equipment
- \$1.8 million cash

Statement of Operations

- Revenues of \$6.1 million (2007 - \$6.2 million)
- Net loss of \$0.3 million from continuing operations (2007 - \$0.4 million) and a net loss, after discontinued operations, of \$0.3 million (2007 - \$0.9 million)
- Net loss of \$0.01 per share from continuing operations (2007 - \$0.01) and net loss of \$0.01 per share (2007 - \$0.02), after discontinued operations
- EBITDA from continuing operations, as defined in the financial performance section of this report, was \$0.5 million, a decrease of \$0.2 million compared to last year and EBITDA including discontinued operations was \$0.5 million, an increase of \$0.3 million compared to last year.

Management Objectives

Our goal is to create value for our shareholders by building a strong foundation of profit-generating pharmaceutical and medical laboratory services. Below are our objectives for 2008.

2008 Objectives

- Execute on our operational plan to attain profitability
- Restructure our balance sheet
- Increase business development effort in all divisions to increase revenue and expand our geographic markets
- Evaluate new business opportunities and potential acquisitions to increase critical mass

Restatement of 2007 Interim Financial Statements

Warnex's Board of Directors, on the recommendation of management, has concluded that the Company will not file amended interim financial statements for the year 2007 but will restate the 2007 comparative numbers when disclosing its 2008 interim financial statements.

On December 31, 2007, the Company retroactively corrected an error in the presentation of the debt component of the 2002 and 2004 convertible debentures, by restating prior periods. In accordance with CICA Handbook section 3861, "Financial Instruments – Disclosure and Presentation", the value of the liability and equity components of the convertible debentures has been properly determined, at the time of their issuance, but the difference between the liability component carrying amount at inception and the principal amount of the debentures should have been treated as a debt discount and therefore accreted over the life of the instrument through periodic charges to income using an effective interest rate method of amortization.

We take our obligation to provide accurate financial information very seriously and this error in the interpretation of an accounting principle does not impact our internal controls, which remain strong overall. The principal value of the debentures as well as their respective terms and conditions have been fully and accurately described in the notes to the financial statements. Although regrettable, this specific and isolated error does not impact the future outlook of the Company.

Accordingly, we restated the comparable figures for the first quarter of 2007 as follows:

	Correction \$	Initial amount \$	2007 Restated amount \$
<u>Statement of earnings</u>			
2007 accretion of interest	57,811	90,784	148,595
2007 interest on liability component of convertible debentures to be included in the Statement of earnings and not the Statement of deficit	34,159	34,159	-
Loss from continuing operations	91,970	291,145	383,115
Net loss	91,970	828,937	920,907
Basic and fully diluted net loss per share from continuing operations	0.00	0.01	0.01
Basic and fully diluted net loss per share	0.00	0.02	0.02
<u>Statement of deficit</u>			
Accretion of interest to January 1, 2006	393,900		
2006 interest on liability component of convertible debentures presented in the Statement of deficit when it should have been included in the Statement of earnings	(90,242)		
Net loss	311,597		
Deficit	615,255	40,168,524	40,783,779

The impacts on previously disclosed quarterly results are as follows:

	Net loss – previously disclosed			Net loss – restated		
	2007 \$	2006 \$	2005 \$	2007 \$	2006 \$	2005 \$
Q1	828,937	1,556,151	1,177,748	920,908	1,630,421	1,249,516
Q2	23,104	3,045,703	1,167,352	113,577	3,120,884	1,240,096
Q3	174,765	1,606,495	1,196,343	263,213	1,682,581	1,269,795
Q4	-	11,684,734	926,197	-	11,770,794	1,000,101
Total	1,026,806	17,893,083	4,467,640	1,297,698	18,204,680	4,759,508
Variance				270,892	311,597	291,868

	Net loss and diluted net loss per share – previously disclosed			Net loss and diluted net loss per share – restated		
	2007 \$	2006 \$	2005 \$	2007 \$	2006 \$	2005 \$
Q1	0.02	0.03	0.02	0.02	0.03	0.03
Q2	0.00	0.06	0.02	0.00	0.06	0.03
Q3	0.00	0.03	0.02	0.01	0.03	0.03
Q4	-	0.22	0.02	-	0.23	0.02
Total	0.02	0.34	0.09	0.02	0.35	0.10
Variance				0.01	0.01	0.01

Further reference in the comparison of results between 2008 and 2007 will be based on 2007 restated amounts.

Financial Performance

Results of Operations for the Three Months Ending March 31, 2008, Compared to the Restated Three Months Ending March 31, 2007

The following table provides selected financial data from the audited financial statements:

	Revenue			Net earnings (net loss)		
	Q1 2008 \$	Q1 2007 \$	Variance \$	Q1 2008 \$	Q1 2007 \$	Variance \$
Analytical	3,186,831	3,179,506	7,325	339,502	248,729	90,773
Bioanalytical	1,918,415	2,174,102	(255,687)	377,259	556,775	(179,516)
Medical	1,001,085	769,455	231,630	234,347	230,671	3,676
Management services	35,235	38,948	(3,713)	(1,237,430)	(1,419,290)	181,860
	6,141,566	6,162,011	(20,445)	(286,322)	(383,115)	96,793
DNA Detection Technology	-	225,242	(225,242)	-	(537,792)	537,792
Total	6,141,566	6,387,253	(245,687)	(286,322)	(920,907)	634,585

Impact of Discontinued Operations

In the fourth quarter of 2006, the Company made the decision to divest of the pathogen detection business. This was a difficult decision given both the world-class quality of the technology and the collective investment of time and money that went into developing it. Ultimately, we came to the conclusion that this business required a wider distribution platform, additional product lines and additional funding to achieve its full commercial potential.

We concluded the sale of this division to AES Laboratoire, effective June 28, 2007, by selling the related assets of our Warnex Research Inc. and Warnex Diagnostics Inc. subsidiaries for the total price of \$900,000 in cash. This transaction resulted in a gain on disposal of assets of \$732,293 in the second quarter. Since the Company continued to sell this division's products until the sale was concluded in June 2007, we sustained an operating loss of \$303,989 with net earnings from discontinued operations in 2007 of \$428,304. In 2006, following our decision to discontinue this operation, we recorded an impairment of \$9,762,647 and restructuring costs of \$333,053. In addition, operating losses of \$4,664,536 were sustained during 2006, for a net loss from discontinued operations of \$14,760,236 in 2006.

Continuing Operations

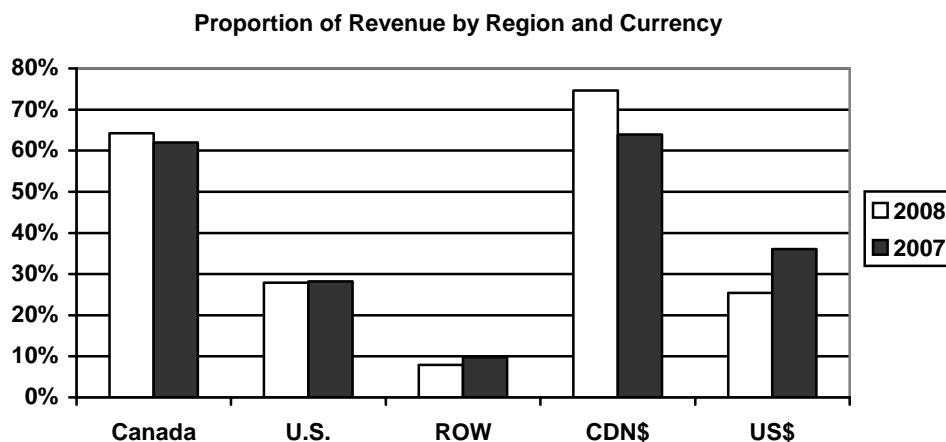
For the three-month period ended March 31, 2008, revenue from continuing operations reached \$6,141,566 (2007 - \$6,162,011), similar to last year. The Analytical and Medical divisions generated revenue growth this period while the Bioanalytical division had a 12% reduction compared to last year.

The Analytical division generated revenue similar to last year at \$3.2 million, including \$1.7 million from the analytical laboratory in Laval and \$1.5 million from the Neopharm division in Blainville, acquired in September 2006.

Revenues in the Bioanalytical division decreased by 12% from \$2.2 million to \$2.0 million due to foreign exchange and less revenue from storage and disposal of samples. The first quarter of 2007 was the best first quarter ever for this division due to study delays in 2006.

The Medical division's revenues increased by 30% from \$0.8 million to \$1.0 million. Prenatal testing revenues increased by 26%, due to our increased sales and marketing efforts and despite the loss of our largest prenatal screening customer in the last quarter of 2006. Pharmacogenetic contracts increased by 169% during the quarter compared to last year.

The proportion of revenues generated by Canadian customers increased to 64% in 2008 from 62% in 2007. The proportion of revenues from U.S. customers was similar to last year at 28% and from foreign customers, the proportion decreased to 8% from 10% last year. The proportion of total revenue generated in U.S. dollars is less than last year, with 25% in 2008 versus 36% in 2007.



Gross margins for the three-month period ended March 31, 2008, amounted to \$1,591,065 or 25.9% of sales (2007 - \$1,569,934 or 25.5% of sales). The increase of \$21,131 in gross margin is mainly explained by an increase in direct labour efficiency and less amortization even though maintenance and repair expenses are higher than last year.

Selling, administrative, and financial expenses are summarized as follows:

	Q1 2008 \$	Q1 2007 \$	Variance \$
Selling and administrative	1,513,362	1,425,288	88,074
Financial	364,025	527,761	(163,736)
Total	1,877,387	1,953,049	(75,662)

Selling and administrative expenses amounted to \$1,513,362 for the three-month period ended March 31, 2008 (2007 - \$1,425,288). The increase of \$88,074 is mainly explained by an increase in salaries. In proportion of revenue, administrative and selling expenses are higher than last year at 25% in 2008 (2007 - 23%).

Financial expenses decreased by \$163,736, from \$527,761 in the first quarter of 2007 to \$364,025 in the first quarter of 2008, mainly due to less interest following repayments made on the long term debt and debentures.

For the three-month period ended March 31, 2008, the net loss from continuing operations amounted to \$286,322 or \$0.01 per share (2007 - \$383,115 or \$0.01 per share). The net loss including discontinued operations amounted to \$286,322 or \$0.01 per share (2007 - \$920,907 or \$0.02 per share).

For the three-month period ended March 31, 2008, earnings before interests, taxes, depreciation and amortization (EBITDA) from continuing operations amounted to \$474,649 (2007 - \$666,670), a decrease of \$192,021. Total EBITDA including discontinued operations was \$474,649 for the quarter compared with \$155,449 in 2007, an increase of \$319,200.

EBITDA is a non-GAAP financial measure and does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other companies. The calculation for the period under review is as follows:

	Continuing Operations			All operations including discontinued operations		
	Q1 2008 \$	Q1 2007 \$	Variance \$	Q1 2008 \$	Q1 2007 \$	Variance \$
Net loss	(286,322)	(383,115)	96,793	(286,322)	(920,907)	634,585
Loss on disposal of property, plant and equipment	1,054	-	1,054	1,054	-	1,054
Interest revenue	(13,536)	(38,949)	25,413	(13,536)	(38,949)	25,413
Financial expenses	364,025	527,761	(163,736)	364,025	532,514	(168,489)
Amortization	387,887	495,705	(107,818)	387,887	517,523	(129,636)
Compensation for stock options	21,541	65,268	(43,727)	21,541	65,268	(43,727)
EBITDA	474,649	666,670	(192,021)	474,649	155,449	319,200

Balance Sheet

The balance sheet as at March 31, 2008, shows total assets of \$16.5 million (December 2007 - \$16.0 million), working capital deficit of \$10.0 million (December 2007 - \$10.0 million), shareholders' deficiency of \$1.3 million (December 2007 - \$1.0 million), and cash of \$1.8 million (December 2007 - \$1.0 million). The negative working capital is due to all of the debentures maturing in June and July 2008 and therefore disclosed as current liabilities. The Company also invested \$158,930 in property, plant and equipment.

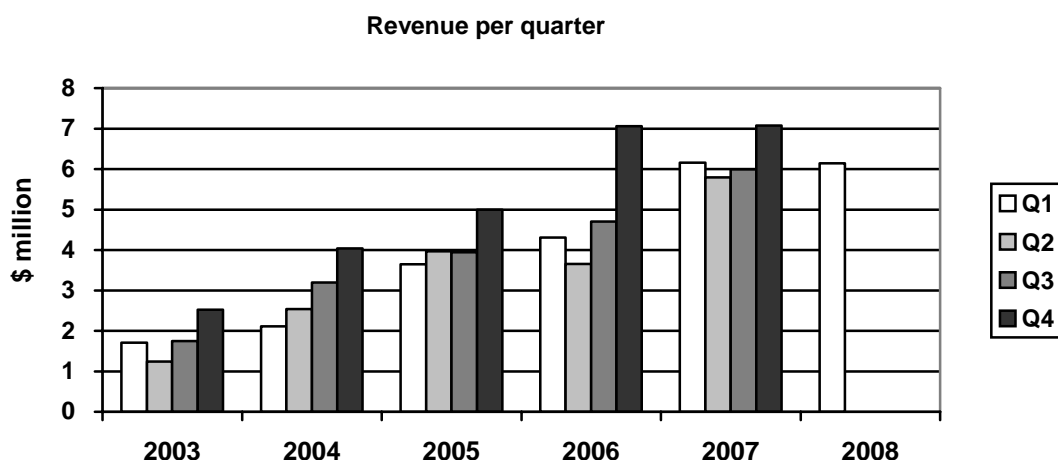
Summary of Quarterly Results

The following table provides selected quarterly information regarding the Statement of Earnings:

	Revenue			Net loss from continuing operations			Net loss		
	2008 \$	2007 \$	2006 \$	2008 \$	2007 \$	2006 \$	2008 \$	2007 \$	2006 \$
Q1	6,141,566	6,162,011	4,304,401	286,322	383,115	412,524	286,322	920,907	1,630,421
Q2		5,792,277	3,651,667		1,036,277	1,604,484		113,577	3,120,884
Q3		5,990,729	4,702,365		180,960	788,788		263,213	1,682,581
Q4		7,075,422	7,060,721		425,386	638,648		299,737	11,770,794
Total		25,020,439	19,719,154		2,025,739	3,444,444		1,597,435	18,204,680

	Net loss and diluted net loss per share from continuing operations			Net loss and diluted net loss per share		
	2008 \$	2007 \$	2006 \$	2008 \$	2007 \$	2006 \$
Q1	0.01	0.01	0.01	0.01	0.02	0.03
Q2		0.02	0.03		0.00	0.06
Q3		0.00	0.02		0.01	0.03
Q4		0.01	0.01		0.01	0.23
Total		0.04	0.07		0.03	0.35

We have maintained a steady growth in revenues throughout the years and achieved an all-time quarterly record of \$7.0 million in the fourth quarter of 2007. The acquisitions made in 2006 positively impacted our revenue growth in the first three quarters of 2007 as we acquired the PRO-DNA laboratory in May 2006 and the analytical laboratory located in Blainville in September 2006.



Liquidity and Capital Resources

As at March 31, 2008, the Company does not maintain the required banking covenants and presently shows a negative current ratio, since the convertible debentures mature June 25, 2008, and July 9, 2008. As a result, the bank has not authorized the Company to have access to the operating line of credit. Our bank has not renewed the line of credit, which we were not using, beyond February 29, 2008, and has not waived defaults as at March 31, 2008. Without refinancing these debts, the Company's committed cash obligation exceeds the cash on hand and the expected level of cash flow from operation for the next twelve months.

On March 19, 2008, the Company announced that it has entered into agreements in principle with the various holders of all of its outstanding debentures, aggregating \$11,345,000 in principal amount, in order to modify the terms and conditions of such debentures. The agreements in principle include the following elements:

- Elimination of the fixed conversion rate of 1.369 contained in the US dollar denominated debentures, therefore reducing the principal debt from CDN\$6,845,000 to US\$5,000,000;
- Conversion of an aggregate of \$1,833,334 in principal into common shares of Warnex;
- Repayment of an aggregate of \$1,333,333 in principal upon closing;
- Deferral of an aggregate of \$6,333,333 in principal for three additional years;
- Increase of the interest rate on the US dollar denominated debentures to 12% per annum;
- Reduction in the exercise price of 3,963,729 warrants to \$0.25 and the extension of the term of 1,570,983 warrants by two years.

On May 5, 2008, the Company reported further details as to the implementation of this debt restructuring. Given the importance of implementing the debt restructuring as expeditiously as possible, the closing of the debt restructuring is expected to occur immediately following the execution of definitive documentation and the receipt of all requisite regulatory approvals, including the approval of the Toronto Stock Exchange. The closing may therefore occur prior to the expiry of the 21-day period otherwise contemplated by Regulation 61-101.

The Company's ability to continue as a going concern is dependent upon its ability to finalize the agreements in principle with the debenture holders.

The Company has entered into an agreement with Desjardins for financing and banking services as announced on May 6, 2008. As part of the agreement, Warnex will receive financing facilities totalling \$4 million, which include a revolving line of credit of \$2 million and a term debt of \$2 million. The proceeds of this financing will be used to repay certain debentures and the existing term debt with the National Bank of Canada, as well as for general working capital purposes.

Once we complete the reorganization of our balance sheet and given the improvement of our financial results and positive EBITDA, the Company will be able to pursue its business plan and finance its planned growth through internally generated funds. If the growth is faster than anticipated or if we make acquisitions, we may then require additional capital.

The Board of Directors of Warnex has implemented an investment policy regulating the investment activities of cash resources. The Company invests solely in liquid, high-grade securities with varying maturity dates. As at March 31, 2008, the Company had \$1.8 in cash (December 2007 - \$1.0 million). The Company does not invest in asset backed commercial paper.

The following table provides the contractual obligations for the next five years:

Payments due by period	Less than 1 year \$	1 - 3 years \$	4 - 5 years \$	More than 5 years \$
Long-term debt	1,038,250	76,500	19,124	-
Capital lease obligations	334,294	12,992	-	-
Operating leases	663,542	1,260,824	1,278,828	3,203,194
Purchase obligations	102,690	87,849	57,233	-
Debenture	4,517,902	-	-	-
Convertible debentures	6,845,000	-	-	-
Total	13,501,678	1,438,165	1,355,185	3,203,194

Note 1: The convertible debentures may be converted into Warnex shares at or before their maturity.

Note 2: The Company does not engage in off-balance sheet arrangements.

Related Party Transactions

During the period, the following transactions occurred with Busgang Investments Inc., a company owned by the President, Chief Executive Officer and Director of the Corporation:

- 1) Rent was paid in the amount of \$139,162 (2007 - \$60,852)
- 2) On February 1st, 2008, the Company entered into a lease with Busgang Investments Inc., a company owned by the President, Chief Executive Officer and Director of the Corporation, to rent 44,073 square feet of space in its existing premises at 865 Michèle-Bohec Blvd., Blainville, Quebec, for a ten-year period from February 1, 2008, to January 31, 2018, and calls for base rental payments of \$374,620 per year the first 5 years and \$412,083 thereafter.
- 3) On February 1st, 2008, the lease for the Laval facility located at 3885 Industrial Blvd., Laval, Quebec has been extended to January 31, 2018 and calls for base rental payments of \$243,408 to June 30, 2011, \$264,000 to January 31, 2013, \$297,000 thereafter.

These transactions are measured at the exchange amount, which is the amount of consideration determined and agreed to by the related parties. The Company has a policy that the non-related members of the Board of Directors must approve any related party transaction.

Critical Accounting Estimates

The \$0.9 million of goodwill results from the acquisition of PRO-DNA Diagnostics Inc. in May 2006. The Company assesses on an ongoing basis, and at least annually, whether a provision for permanent impairment in the value of goodwill should be adjusted to earnings. No adjustment was required as at March 31, 2008.

Changes in Accounting Policies

The Company adopted the Canadian Institute of Chartered Accountants ("CICA") Section 1535, Capital disclosures, Section 3031 Inventories and Section 3862 and 3863 Financial instruments disclosure and presentation.

On January 1, 2008, the Company adopted the new recommendations of the CICA Section 1535 for disclosure of the Company's objectives, policies and processes for managing capital as disclosed further in note 17.

Effective January 1, 2008, the Company adopted the new recommendations of the CICA Section 3031 "Inventories". These recommendations provide guidance on the method of determining the cost of the Company's materials and supplies. The new accounting standard specifies that inventories are to be valued at the lower of cost and net realizable value. The standard requires the reversal of previously recorded write downs to realizable value when there is clear evidence that net realizable value has increased. The adoption of Section 3031 "Inventories" did not impact the Company's financial statements.

On January 1, 2008, the Company adopted the new recommendations of CICA Section 3862 "Financial instruments – disclosure", which describes the required disclosure for the assessment of the significance of financial instruments, for an entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. In addition, the Company adopted the new recommendations of CICA Section 3863 "Financial instruments – presentation" of which this standard had no impact on the Company's financial instrument related presentation disclosures.

Future accounting changes

In February 2008, the CICA published Section 3064, Goodwill and intangible assets. This Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets and replaces Section 3062, Goodwill and intangible assets. This new standard will be effective for interim period and annual financial statements starting October 1, 2008. The Company is presently evaluating the impact of this new standard.

Capital disclosures

The Company's objective when managing capital is to maintain adequate cash resources to support planned activities which include providing analytical, bioanalytical and medical laboratory services. The Company includes shareholders equity, cash, short-term investments and long term debt in the definition of capital. The Company currently has debt owing to the trade accounts payable, the bank, and the holders of the long-term debt and convertible debentures.

The Company's objectives when managing capital are to maintain financial flexibility in order to preserve its ability to meet financial obligations, including debt servicing payments.

In managing capital, the Company estimates its future cash requirements by preparing a budget and a multiyear plan annually for review and approval by the Company's Board of Directors. The budget establishes the approved activities for the upcoming year and estimates the costs associated with these activities. The multiyear plan estimates future activity along with the potential cash requirements and is based on the Company's assessment of its current services along with the expected results from the coming year's activity. Budget to actual variances are prepared monthly and reviewed by the Company's management and are presented quarterly to the Board.

Historically, funding for the Company's plan is primarily managed through the issuance of additional common shares, common share purchase warrants that upon exercise are converted to common shares, private placements from various institutions and the issuance of various debt instruments. Management regularly monitors the capital markets attempting to balance the timing of issuing additional equity with the Company's progress through its programs, general market conditions, and the availability of capital. There are no assurances that funds will be made available to the Company when required.

Outstanding Share Data

As at the date of this report, the nominal and fully diluted numbers of shares are as follows:

	Nominal	Fully diluted
Issued and outstanding common shares	51,973,875	51,973,875
Options issued	1,068,900	1,068,900
Share warrants (note 1)	6,112,909	6,112,909
U.S. convertible debentures (note 2)	6,845,000	9,126,666
Total		68,282,350

Note 1: 4,112,909 share warrants expire in June 2009 and the balance in October 2011.

Note 2: We used the \$0.75 conversion factor to estimate proportionate number of common shares related to convertible debentures.

In 2004, the Company issued non-secured convertible debentures in the amount of \$6,845,000 (US\$5,000,000), bearing interest at a rate of 7% annually, payable quarterly in arrears, maturing on June 25, 2008, and convertible into 9,126,666 (2006 - 6,116,607) common shares of the Company at the sole option of the lender. In October 2006, the conversion ratio was reduced from \$1.30 to \$1.12 pursuant

to the repricing provisions of the debentures and further reduced to \$0.75 in January 2007 to match the share warrants exercise price granted to the October 2006 debenture holder. Similar repricing provisions also apply to the share purchase warrants issued as part of this financing entitling the lender to purchase 1,963,729 common shares of the Company for a price of \$1.17 (2004 - \$1.50) per share until June 25, 2009.

In 2002, the Company issued non-secured debentures in the amount of \$3,000,000 bearing interest at a rate of 12% annually maturing July 9, 2008, and convertible into common shares of the Company at a conversion ratio of \$6.00 for the period from January 1, 2007, to July 10, 2007. The interest on the debentures was capitalized until July 9, 2003, and added to the cost of the debentures for the period of July 2002 to July 2003. The capitalized interest is payable in 60 monthly payments, which commenced in August 2003.

Financial Disclosure

Disclosure Controls and Procedures

Our disclosure controls and procedures are designed to provide reasonable assurance that material information required to be disclosed by us is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws, and include controls and procedures that are designed to ensure that information is accumulated and communicated to management, including the President and Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure.

As of March 31, 2008, an evaluation was carried out, under the supervision of and with the participation of management, including the President and Chief Executive Officer and the Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as defined under Multilateral Instrument 52-109. Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of our disclosure controls and procedures were effective as at March 31, 2008.

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

On May 1st, 2006, the Company purchased PRO-DNA Diagnostics Inc., a laboratory offering human genetic testing and pharmacogenetic services whose annual revenues represent approximately 2% of the Company's consolidated revenues. On September 1st, 2006, Warnex Analytical Services Inc., a wholly-owned subsidiary of the Company, acquired all assets of MDS Pharma Services' pharmaceuticals business located in Blainville, Quebec, a laboratory offering traditional chemistry, chromatography, microbiology, method development and validation, technology transfer and stability studies. Since their acquisition, we have integrated PRO-DNA Diagnostics Inc. into Warnex Medical's operations and MDS Pharma Services' pharmaceuticals business into Warnex Analytical Services' operations and implemented the Company's internal controls over financial reporting. These implementations were facilitated as these operations were similar to our existing divisions.

As of March 31, 2008, management evaluated the design of internal control over financial reporting as defined under Multilateral Instrument 52-109, and based on that evaluation determined that certain aspects of internal control over financial reporting were not designed effectively but were mitigated by additional procedures to compensate them. The control deficiencies identified by the Company did not result in adjustments to our annual or any interim consolidated financial statements for 2007 and 2008.

Management's assessment identified the following material weaknesses:

- Entity level controls

The Company did not maintain a completely effective control environment as defined in accordance with COSO control framework. Specifically, we do not have comprehensive procedure manuals to clearly communicate management's and employees' roles and responsibilities in the Company's internal control over financial reporting.

To mitigate the risk, management relies heavily on manual procedures and detection controls, weekly management meetings, monthly reviews of financial statements by the operating divisions and quarterly reviews of financial statements by the auditors of the Company and the Audit Committee. These manual procedures were performed during 2007 and 2008.

- Information technology general controls

The Company did not adequately implement certain controls over information technology used in its core business and financial reporting. These areas included controls over program development, program changes, computer operations, and access to programs and data. In addition, formal written policies and procedures and consistent practices, as well as formal documentation demonstrating the performance of key controls, did not exist for most areas within the aforementioned information technology general controls.

This weakness has to be analyzed in the context of core programs in the service divisions that have been either used for many years or adequately validated since these divisions operate under stringent regulatory environments such as General Laboratory Practices, General Manufacturing Practices, U.S. Food & Drug Administration Policies and TPD policies and have been subject to numerous audits by customers and regulators. The potential ability for someone to improperly access and change accounting records is mitigated by the fact that management relies heavily on manual procedures and detection controls, weekly management meetings, monthly reviews of financial statements by the operating divisions and quarterly reviews of financial statements by the auditors of the Company and the Audit Committee.

- Segregation of duties

The Company had deficient controls within its accounting and finance department over segregation of duties inherent to its size. Specifically, as a result of the limited number of personnel in the accounting and finance department, certain financial personnel had incompatible duties that allowed for the creation, review and processing of certain financial data without independent review and authorization.

To mitigate the risk, management relies heavily on manual procedures and detection controls, weekly management meetings, monthly reviews of financial statements by the operating divisions and quarterly reviews of financial statements by the auditors of the Company and the Audit Committee. These manual procedures were performed during 2007 and 2008.

Remediation of material weaknesses in internal control over financial reporting

Subsequent to December 31, 2006, we have begun or plan to take the following actions to address the material weaknesses in internal controls over financial reporting identified as of December 31, 2006.

- Entity level controls

Management and the Audit Committee have taken an active role in responding to the deficiencies identified, including overseeing management's implementation of the remedial measures described below.

- Information technology general controls

We will implement enhanced information technology policies and procedures specifically with regards to system's change management, program development, end-user computing, and access controls and related monitoring. We will develop and implement a global information technology strategic plan.

- Inadequate segregation of duties

We continue to develop and employ appropriate measures to restrict or independently monitor systems access and/or properly assign job roles and responsibilities to employees to ensure the proper segregation of duties.

We realize that some of the above weaknesses are inherent to a company of our size. Nevertheless, we believe in and are committed to establishing rigorous disclosure controls and procedures and internal control over financial reporting. It will take time to put in place the rigorous controls and procedures desired by our management and our Board of Directors. We cannot at this time estimate how long it will take to complete the steps identified above. Our management will continue to evaluate the effectiveness of our overall control environment and will continue to refine existing controls as they, in conjunction with the Audit Committee of our Board of Directors, Chief Executive Officer and Chief Financial Officer, think necessary. Again, the control deficiencies identified by the Company did not result in adjustments to our annual or any interim consolidated financial statements for 2007 and 2008.

Other than the remediation efforts discussed above and the integration of PRO-DNA Diagnostics Inc. into Warnex Medical's operations and MDS Pharma Services' pharmaceuticals business into Warnex Analytical Services' operations and the implementation of Warnex' internal controls over financial reporting, there have been no changes in our internal control over financial reporting that occurred since the beginning of fiscal year 2008 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting. Our management, including our Chief Executive Officer and our Chief Financial Officer, have discussed these issues and remediation efforts in detail with the Audit Committee of our Board of Directors.

The Company will provide updates on the remediation plan in its quarterly reports and its annual MD&A.

Risk and Uncertainties

Financial Resources

The Company's balance sheet presently shows a negative current ratio since the convertible debentures mature on June 25, 2008 and on July 9, 2008. Therefore, we do not maintain the current ratio and minimum equity ratio required by our banking agreement. The Company's ability to continue as a going concern is dependent upon its ability to close the financing arrangements as described in the Liquidity and Capital Resources section.

Warnex believes that it will be able to obtain long-term capital, if necessary, to support its corporate objectives. Please refer to the liquidity and capital resources section for additional comments. However, it is impossible to guarantee the availability of additional financial resources or that these will be available under acceptable conditions. Our cash requirements may vary materially depending on various factors, including changes in the number of customers and the volume of work ordered in our service divisions.

Government Regulations

The provision by Warnex of its analytical, bioanalytical and medical laboratories services is governed by numerous statutes and regulations. The subject-matter of this legislation includes Good Laboratory Practices (GLP), Good Manufacturing Practices (GMP), the Therapeutic Products Directorate (TPD) and other standards and permits required to operate our laboratories. Findings of important non-compliance to such regulations, or important modifications to statutes and regulations governing Warnex's activities,

could affect the ability or the conditions upon which the Company carries out services, and could have an adverse effect on results.

Laboratory Facilities

The Company relies on having properly validated, fully functioning laboratory facilities in which to render its services. Should systems fail, or a disaster strike, the ability to render services would be negatively affected which, in turn, would affect revenue generation. The Company does not currently have backup solutions for all the equipment used for rendering services. As a result, should an unexpected event as described above occur, our results could be adversely affected.

Suppliers

Warnex is dependant on third parties for the supply of certain specialized reagents. Although Warnex looks to secure alternative suppliers, Warnex may not be able to obtain the reagents or products from such third parties, the reagents or products may not comply with specifications, the prices at which Warnex purchases them may increase or Warnex may not be able to locate alternative sources of supply in a reasonable time period. Should any of these events occur, Warnex may not be able to continue to market certain of its services which could adversely affect our results.

Employees

Warnex's continued success will be dependent on the performance and continued service of certain key employees. The loss of any of these individuals could have a material adverse impact on the Company's business. We believe that our success relies in part on our ability to continue attracting and retaining such competent employees.

The employees working at the Laval site for the Analytical Services division are unionized and the collective agreement will end on April 19, 2008. Negotiations with the union representatives have started in April 2008 and are not finalized as of the date of this report. We think this risk is mitigated since our relationship with the union and with these employees is good.

Key Customers and Business Partners

Warnex Analytical's two most important customers accounted for 40% of sales for the year 2007 (2006 - 50%). These customers have remained Warnex Analytical's largest customers in each of its sites for many years and we consider that our relationships with them are good. Warnex Bioanalytical's three main customers accounted for 46% of this division's revenues for the year 2007 (2006 - 65%) and we consider that our relationships with these important customers are good. The loss of any of these customers could adversely affect our financial results.

Foreign Currency Risk

The Company realizes some of its revenues in U.S. dollars and Euros and some of its purchases and interest payments on the convertible debentures in U.S. dollars. Consequently, we are exposed to fluctuations of these currencies.

Credit Risk

Financial instruments, which potentially subject Warnex to concentrations of credit risk, consist primarily of cash and cash equivalents and accounts receivable. Cash and cash equivalents are maintained with high-credit quality financial institutions. Consequently, management considers the risk of non-performance related to cash and cash equivalents to be minimal. In the normal course of business, Warnex monitors the financial condition of its customers and reviews the credit history of each new customer. The Company establishes an allowance for doubtful accounts that corresponds to the credit

risk related to specific customers, historical trends and economic circumstances. We do not believe that Warnex is exposed to an unusual level of customer credit risk.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk by forecasting cash flows to identify financing requirements by maintaining committed and demand credit facilities and by maintaining access to additional financing at competitive rates through capital markets and highly rated financial institutions.

Volatility of Share Price

The market price of Warnex shares is subject to volatility because of different factors, including reports on new information and deviations in actual financial or scientific results as compared to expectations of shareholders and securities analysts who follow our activities. In addition, the shares of Warnex, of other life sciences companies and of the stock market in general have been subject to fluctuations, which were unrelated to the operations or results of the Company. There is no guarantee that the market price of Warnex's shares will be protected from all such fluctuations in the future.

Outlook

We expect to generate a positive EBITDA, as defined in the financial performance section, and improve our financial results compared to 2007. Critical events in 2008 will be the profitability improvements of our laboratory services.

Signed for management, this 12th day of May 2008.



Mark Busgang
President & CEO



François Jetté, CA
Chief Financial Officer

Interim Consolidated Balance Sheets (Unaudited)

	March 31 2008	December 31 2007
Assets		
Current		
Cash and cash equivalents	\$1,762,999	\$1,016,951
Accounts receivable (note 7)	5,282,745	5,440,231
Work-in-progress	94,103	34,798
Inventory	80,469	93,053
Investment tax credits receivable	135,283	135,283
Prepaid expenses	297,821	169,610
	7,653,420	6,889,926
Long-term receivables (note 8)	125,000	125,000
Property, plant and equipment (note 9)	7,509,469	7,726,464
Intangible assets (note 10)	277,865	292,606
Goodwill	937,695	937,695
	\$16,503,449	\$15,971,691
Liabilities		
Current		
Accounts payable	\$3,804,538	\$ 3,575,368
Deferred revenue	1,267,472	487,045
Current portion of long-term debt	1,362,607	1,609,127
Current portion of debentures (note 13)	11,261,610	11,170,730
	17,696,227	16,842,270
Long-term debt (note 12)	108,546	165,964
	17,804,773	17,008,234
Shareholders' deficiency		
Capital stock (note 14)	38,705,849	38,705,849
Equity component of debentures (note 13)	1,428,114	1,428,114
Contributed surplus	1,232,249	1,210,708
Deficit	(42,667,536)	(42,381,214)
	(1,301,324)	(1,036,543)
	\$16,503,449	\$15,971,691

The accompanying notes are an integral part of these consolidated financial statements.

Interim Consolidated Statements of Contributed Surplus (Unaudited)

For the three months ended March 31	2008	2007 (restated note 2)
Balance, beginning of period	\$1,210,708	\$1,080,728
Compensation cost for stock options granted	21,541	65,268
Balance, end of period	\$1,232,249	\$1,145,996

The accompanying notes are an integral part of these consolidated financial statements.

Interim Consolidated Statements of Deficit (Unaudited)

For the three months ended March 31	2008	2007 (restated note 2)
Balance, beginning of period	\$42,381,214	\$40,168,524
Adjustment to opening deficit (note 2)	-	615,255
Restated balance, beginning of period	42,381,214	40,783,779
Net loss	286,322	920,907
Balance, end of period	\$42,667,536	\$41,704,686

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Accumulated Other Comprehensive Income (Unaudited)

For the three months ended March 31	2008	2007 (restated note 2)
Accumulated Other Comprehensive Income	\$-	\$-

The accompanying notes are an integral part of these consolidated financial statements.

Interim Consolidated Statements of Earnings and Comprehensive Income (Unaudited)

For the three months ended March 31	2008	2007 (restated note 2)
Revenue	\$6,141,566	\$6,162,011
Cost of goods sold (note 15)	4,550,501	4,592,077
Gross margin	1,591,065	1,569,934
Operating expenses (note 15)		
Selling, general and administrative	1,513,362	1,425,288
Finance charges	364,025	527,761
	1,877,387	1,953,049
Loss from continuing operations	(286,322)	(383,115)
Loss from discontinued operations (note 6)	-	(537,792)
Net loss and comprehensive income	\$(286,322)	\$(920,907)
Basic and fully diluted net loss per share from continuing operations	\$(0.01)	\$(0.01)
Basic and fully diluted net loss per share	\$(0.01)	\$(0.02)
Weighted average number of shares outstanding	51,973,875	51,973,875

The accompanying notes are an integral part of these consolidated financial statements.

Interim Consolidated Statements of Cash Flows (Unaudited)

For the three months ended March 31	2008	2007 (restated note 2)
Operations		
Net loss	\$(286,322)	\$(383,115)
Items not affecting cash:		
Amortization of property, plant and equipment	373,146	479,921
Amortization of intangible assets	14,741	15,784
Accretion of interest	108,781	148,595
Loss on disposal of property, plant and equipment	1,054	-
Foreign currency fluctuation	(72,055)	23,611
Compensation cost for stock options	21,541	65,268
	160,886	350,064
Net change in non-cash working capital items (note 16)	1,056,263	353,000
Net cash provided by continuing operating activities	1,217,149	703,064
Net cash used in discontinued operating activities (note 6)	-	(299,433)
Net cash provided by operations	1,217,149	403,631
Investing activities		
Acquisition of property, plant and equipment	(158,930)	(21,847)
Proceeds on disposal of property, plant and equipment	1,725	-
Net cash used in investing activities	(157,205)	(21,847)
Financing activities		
Increase in bank loan	-	460,000
Repayment of long-term debt	(303,938)	(486,025)
Repayment of liability component of debentures	(17,901)	(17,901)
Net cash used in financing activities	(321,839)	(43,926)
Foreign exchange gain (loss) on cash held in foreign currencies	7,943	(2,375)
Increase in cash and cash equivalents	746,048	335,483
Cash and cash equivalents, beginning of period	1,016,951	4,050,288
Cash and cash equivalents, end of period	\$1,762,999	\$4,385,771

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements (unaudited)

March 31, 2008 and 2007

1. Description of business, basis of financial statement presentation and going concern uncertainty

Warnex Inc. is incorporated under the laws of Canada. Warnex is a life sciences company devoted to protecting public health by providing diverse laboratory services. The Company offers analytical, bioanalytical and medical laboratory services to the pharmaceutical and healthcare sectors. The Company's common stock is traded on the Toronto Stock Exchange, under the symbol WNX.

Warnex Inc. was also focused on the research, development, production and distribution of genomics-based advanced diagnostic products for the agri-food industry until it announced on December 11, 2006, that it was seeking strategic alternatives for this business, which was sold June 28, 2007.

The Company's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Company and all of its subsidiaries: Warnex Analytical Services Inc., Warnex Diagnostics Inc., Warnex Research Inc. and Warnex America Inc. All amounts are presented in Canadian dollars, unless otherwise indicated.

As at March 31, 2008, the Company has an accumulated deficit of \$42,667,536 and a negative current ratio, since the convertible debentures mature June 25, 2008, and July 9, 2008. Without refinancing its operations, the Company's committed cash obligation exceeds the cash on hand and the expected level of cash flow from operations for the next twelve months. As a result, there is significant uncertainty as to whether the Company will have the ability to continue as a going concern.

The Company's ability to continue as a going concern is dependent upon its ability to close the financing arrangements as described in the subsequent event note 21.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis, which presumes the Company will continue in operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the ordinary course of business for the foreseeable future. These consolidated financial statements do not include any adjustments to amounts and classifications of assets and liabilities should the Company not be able to continue as a going concern.

2. Restatement

On December 31, 2007, the Company retroactively corrected an error in the presentation of the debt component of the 2002 and 2004 convertible debentures, by restating prior periods. In accordance with CICA Handbook section 3861, "Financial instruments – Disclosure and Presentation", the value of the liability and equity components of the convertible debentures has been properly determined, at the time of their issuance, but the difference between the liability component carrying amount at inception and the principal amount of the debentures should have been treated as a debt discount and therefore accreted over the life of the instrument through periodic charges to income using the effective interest rate method of amortization. Accordingly, the Company has restated the comparable figures for the first quarter of 2007 as follows:

Notes to Consolidated Financial Statements (unaudited)

March 31, 2008 and 2007

2. Restatement... cont'd

	Correction \$	Initial amount \$	2007 Restated amount \$
<u>Statement of earnings</u>			
2007 accretion of interest	57,811	90,784	148,595
2007 interest on liability component of convertible debentures to be included in the Statement of earnings and not the Statement of deficit	34,159	34,159	-
Loss from continuing operations	91,970	291,145	383,115
Net loss	91,970	828,937	920,907
Basic and fully diluted net loss per share from continuing operations	0.00	0.01	0.01
Basic and fully diluted net loss per share	0.00	0.02	0.02
<u>Statement of deficit</u>			
Accretion of interest to January 1, 2006	393,900		
2006 interest on liability component of convertible debentures presented in the Statement of deficit when it should have been included in the Statement of earnings	(90,242)		
Net loss	311,597		
Deficit	615,255	40,168,524	40,783,779

3. Changes in accounting policies

The Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") Section 1535, Capital disclosures, Section 3031 Inventories and Section 3862 and 3863 Financial instruments disclosure and presentation.

On January 1, 2008, the Company adopted the new recommendations of the CICA Section 1535 for disclosure of the Company's objectives, policies and processes for managing capital as disclosed further in note 17.

Effective January 1, 2008, the Company adopted the new recommendations of the CICA Section 3031 "Inventories". These recommendations provide guidance on the method of determining the cost of the Company's materials and supplies. The new accounting standard specifies that inventories are to be valued at the lower of cost and net realizable value. The standard requires the reversal of previously recorded write downs to realizable value when there is clear evidence that net realizable value has increased. The adoption of Section 3031 "Inventories" did not impact the Company's financial statements.

On January 1, 2008, the Company adopted the new recommendations of CICA Section 3862 "Financial instruments – disclosure", which describes the required disclosure for the assessment of the significance of financial instruments, for an entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. In addition, the Company adopted the new recommendations of CICA Section 3863 "Financial instruments – presentation" of which this standard had no impact on the Company's financial instrument related presentation disclosures.

Notes to Consolidated Financial Statements (unaudited)

March 31, 2008 and 2007

4. Significant accounting policies

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The most significant accounting policies are summarized below.

Interim financial statements

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, 2007. 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, 2007. When necessary, the financial statements include amounts based on informed estimates and best judgments of management. The results of operations for the interim periods reported are not necessarily indicative of results to be expected for the year.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates and assumptions also affect revenues and expenses during the reported period. Actual results could differ from these estimates.

Revenue recognition

Revenue from analytical and medical laboratory services is recorded at the time the test is completed.

Revenue from bioanalytical services is recorded using the percentage of completion method whereby revenue and profit are based on a ratio of costs incurred to total estimated costs of the project.

Revenue from DNA detection products was recorded at the time the title of ownership or any significant risks of ownership or future obligations with respect to the products shipped was transferred to the customer, which was usually upon shipment to customer. Revenue from product sales was recognized net of sales discounts, allowances, returns and rebates. In certain circumstances, returns or exchanges of products were allowed under the Company's policies, and provisions were maintained accordingly.

Amounts received from customers as prepayments for services to be rendered in the future are reported as deferred revenue.

Cash and cash equivalents

The cash and cash equivalents consist of bank accounts and short-term investments with maturity dates of three months or less.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined on the first-in first-out basis.

Research and development tax credits

The Company uses the accrual method of accounting to charge research and development tax credits to earnings. These tax credits arise as a result of incurring qualified scientific research and development expenditures.

Notes to Consolidated Financial Statements (unaudited)

March 31, 2008 and 2007

4. Significant accounting policies... cont'd

Property, plant and equipment

Property, plant and equipment are recorded at cost and amortized over their estimated useful life or over the term of the lease as follows:

Declining-balance method		
Lab equipment		20%
Machinery and equipment		20%
Computer equipment		30%
Furniture, fixtures and telephone equipment		20%
Non-refundable government financial assistance		20%
Straight-line method		
Leasehold improvements		over the term of the lease

Non-refundable government financial assistance regarding property, plant and equipment are netted against these assets when earned.

Intangible assets and goodwill

Computer software is recorded at cost and amortized on the declining balance method at a rate of 20%. Licences and customer contracts are recorded at cost and amortized over their estimated useful lives, not exceeding 20 years. Goodwill represents the excess of the purchase price over the fair value of the net assets acquired. Goodwill and intangible assets with indefinite life are subject to at least an annual assessment for impairment by applying a fair value test. The Company then assesses whether a provision for permanent impairment in the value of goodwill should be adjusted to earnings. This is determined mainly by analyzing whether the projected discounted cash flows exceed the net book value of goodwill.

Impairment of long-lived assets

Long-lived assets, which comprise property, plant and equipment, and intangible assets with definite life, are reviewed for impairment when certain events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable i.e. when their net book value exceeds the sum of the undiscounted cash flows expected to result from their use and eventual disposition. An impairment loss should be recognized when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. The impairment amount is measured as the amount by which the carrying amount of the asset exceeds its fair value, calculated using discounted cash flows when quoted market prices are not available.

Debentures

The value of the debt component of the debentures has been determined, at the time of their issuance, by discounting the future capital and interest payments until their maturity dates at a discount rate which represented the borrowing rate available to the Company for similar debentures having no warrants or conversion rights. The remaining portion of the net proceeds of the debentures issued is presented as part of shareholders' equity. The difference between the principal amount of the debentures and the liability component carrying amount at inception is accreted to the face value of each debenture through the recording of additional interest expense over the term of the debenture through periodic charges to income using the effective interest rate method of amortization.

Deferred revenue

Deferred revenue represents the difference between the amount invoiced to customers, as per each customer agreement, and the revenue recognized.

Notes to Consolidated Financial Statements (unaudited)

March 31, 2008 and 2007

4. Significant accounting policies... cont'd**Loss per share**

Loss per share is calculated using the weighted average number of shares outstanding during the period. Diluted loss per share is computed using the treasury stock method, giving effect to the exercise of all stock options, share warrants and convertible debentures. The diluted loss per share is equal to the basic loss per share due to the anti-dilutive effect of these elements.

Foreign exchange

The Company follows the temporal method to translate its foreign currency balances and transactions into Canadian dollars. Monetary items on the balance sheet are translated at the exchange rates in effect at the end of the period, while non-monetary items are translated at the historical rates of exchange. Revenues and expenses are translated at the rates of exchange in effect on the transaction date or at the average exchange rates for the period. Gains or losses resulting from the translation are included in earnings for the period.

Stock options

The fair value of stock options is evaluated on the grant date using the Black-Scholes model. The cost is recognized on a straight-line basis over the vesting period of the options as an increase to the compensation expense and to contributed surplus. Upon exercise of these stock options, the cash proceeds received and the amount previously credited to contributed surplus related to the exercised options are credited to common share paid-up capital.

Financial instruments

The Company establishes the classification of financial instruments at their initial recognition. Financial assets are classified as held for trading, available for sale, held to maturity or loans and receivables. Financial liabilities are classified as held for trading or other liabilities.

Subsequent measurement and recognition of changes in fair value of financial instruments depend on their initial classification. Held for trading financial investments are measured at fair value and all gains and losses are included in net income in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the assets are removed from the balance sheet.

The standards also require derivative instruments to be recorded as either assets or liabilities measured at their fair value unless exempted from derivative treatment as a normal purchase and sale. Certain derivatives embedded in other contracts must also be measured at fair value. All changes in the fair value of derivatives are recognized in earnings unless specific hedge criteria are met, which requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

5. Future accounting changes**Goodwill and Intangible assets**

In February 2008, the CICA published Section 3064, Goodwill and intangible assets. This Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets and replaces Section 3062, Goodwill and intangible assets. This new standard will be effective for interim period and annual financial statements starting October 1, 2008. The Company is presently evaluating the impact of this new standard.

Notes to Consolidated Financial Statements (unaudited)

March 31, 2008 and 2007

6. Discontinued operations and assets held for sale

Effective June 28, 2007, the Company sold the assets related to its pathogen detection technology from its subsidiaries Warnex Research Inc. and Warnex Diagnostics Inc. for a total price of \$900,000 cash, one third paid on July 5, 2007, and the balance, without interest, by way of two \$300,000 unsecured promissory notes dated June 28, 2008, and June 28, 2009. In August 2007, the promissory notes were sold, without recourse, for \$527,938, after bank fees.

The value of the transaction was allocated \$750,000 for intangibles assets and \$150,000 for inventories and property, plant and equipment. This transaction resulted in a gain on sale of assets of \$732,293.

The results of discontinued operations included the following:

For the three months ended March 31	2008 \$	2007 \$
Revenue	-	225,242
Cost of goods sold	-	227,240
Gross margin	-	(1,998)
Expenses		
Selling and administrative	-	302,849
Finance	-	4,753
Research and development	-	228,192
	-	535,794
Net loss from discontinued operations	-	(537,792)
Basic and fully diluted net loss per share	-	(0.01)

The cash flows from discontinued operations included the following:

For the three months ended March 31	2008 \$	2007 \$
Operations		
Net loss from discontinued operations	-	(537,792)
Items not affecting cash:	-	
Amortization of property, plant and equipment	-	21,266
Amortization of intangible assets	-	552
	-	(515,974)
Net change used in non-cash working capital items	-	216,541
Net cash used in discontinued operating activities	-	(299,433)
Decrease in cash and cash equivalents	-	(299,433)

Notes to Consolidated Financial Statements (unaudited)

March 31, 2008 and 2007

7. Accounts receivable

	March 31, 2008 \$	December 31, 2007 \$
Trade	5,140,658	5,269,884
Allowance for doubtful accounts	(32,115)	(20,000)
	5,108,543	5,249,884
Current portion of non-refundable government assistance	125,000	125,000
Sundry	49,202	65,347
	5,282,745	5,440,231

8. Long-term receivables

	March 31, 2008 \$	December 31, 2007 \$
Non-refundable government assistance with respect to property, plant and equipment	250,000	250,000
Current portion of non-refundable government assistance	(125,000)	(125,000)
	125,000	125,000

9. Property, plant and equipment

March 31, 2008	Cost \$	Accumulated Amortization \$	Net \$
Lab equipment	11,268,887	5,958,099	5,310,788
Machinery and equipment	5,000	3,883	1,117
Computer equipment	687,561	481,049	206,512
Furniture, fixtures and telephone equipment	584,055	309,553	274,502
Leasehold improvements	5,503,784	3,518,650	1,985,134
Non-refundable government financial assistance	(465,000)	(196,416)	(268,584)
	17,584,287	10,074,818	7,509,469
December 31, 2007	Cost \$	Accumulated Amortization \$	Net \$
Lab equipment	11,214,313	5,679,659	5,534,654
Machinery and equipment	5,000	3,824	1,176
Computer equipment	689,804	468,155	221,649
Furniture, fixtures and telephone equipment	484,055	300,369	183,686
Leasehold improvements	5,503,784	3,435,765	2,068,019
Non-refundable government financial assistance	(465,000)	(182,280)	(282,720)
	17,431,956	9,705,492	7,726,464

Notes to Consolidated Financial Statements (unaudited)

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9. Property, plant and equipment... cont'd

The above includes lab equipment under capital lease having a cost of \$4,170,690 (December 2007 - \$4,170,690) and a net carrying value of \$1,992,933 (December 2007 - \$2,097,824), and computer equipment under capital lease having a cost of \$35,319 (December 2007 - \$35,319), and a net carrying value of \$4,668 (December 2007 - \$5,046).

10. Intangible assets

March 31, 2008	Cost \$	Accumulated Amortization \$	Net \$
Licences	33,380	3,894	29,486
Computer software	599,522	351,143	248,379
	632,902	355,037	277,865
December 31, 2007	Cost \$	Accumulated Amortization \$	Net \$
Licences	33,380	2,225	31,155
Computer software	599,522	338,071	261,451
	632,902	340,296	292,606

The above includes computer software under capital lease having a cost of \$116,750 (December 2007 - \$116,750) and a net carrying value of \$38,514 (December 2007 - \$40,541).

11. Financing facility

The Company has the following banking credit facilities:

- a) \$500,000 operating line of credit which is due on demand and bears interest at 2% over the bank's prime lending rate; and
- b) \$1,000,000 bank loan, due September 2010, bearing interest at 2.5% over the bank's prime lending rate and repayable by monthly instalments of \$50,000 plus interest.

The following assets of the Company and its subsidiaries have been provided as security for both facilities:

- a) First ranking moveable hypothec in the amount of \$5,670,000 covering the universality of moveable properties, present and future, except for the intellectual property and trademark previously held in Warnex Research Inc.
- b) Inventories, in virtue of Section 427 of the Bank Act.
- c) Negative pledge on the intellectual property and trademark.

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11. Financing facility... cont'd

Among other things, the credit facility requires the following covenants to be met:

- a) Quarterly working capital ratio of 1.50:1
- b) Quarterly minimum tangible net worth (including as equity the debentures since they are subordinated debts) of \$9 million
- c) Minimum cash of \$1.5 million as part of working capital
- d) As long as the long-term debt is outstanding, the Company has to supply to the bank, on or before December 31, 2007, a confirmation that the debentures will be either refinanced, converted into capital stock or repaid without putting the Company in default of its banking covenants.

The Company is not in compliance with the above mentioned covenants and the lender has not waived compliance with these covenants. Accordingly, the entire amount due to the bank is presented as a current liability as at March 31, 2008. As a result, the bank has not authorized the Company to have access to the operating line of credit.

12. Long-term debt

	March 31 2008 \$	December 31 2007 \$
6.4% Obligation under capital lease, due September 2008, repayable by monthly instalments of \$29,731 principal and interest commencing April 2006. This obligation is secured by specific equipment having a carrying value of \$516,028	175,091	260,553
7.1% obligation under capital lease, due March 2009, repayable by monthly instalments of \$12,992 principal and interest. This obligation is secured by specific equipment having a carrying value of \$290,220	162,188	197,857
Bank term loan, bearing interest at 2.5% over the bank's prime lending rate, due September 2010, repayable by monthly instalments of \$50,000 plus interest and secured as described in note 11	1,000,000	1,150,000
Canada Economic Development interest-free loan up to a maximum amount of \$153,000 or 40% of approved expenses to assist in export market development, repayable in eight equal consecutive semi-annual payments commencing March 2008	133,874	152,999
9% Obligation under capital lease, repaid during the period	-	13,682
	<u>1,471,153</u>	<u>1,775,091</u>
Current portion	<u>1,362,607</u>	<u>1,609,127</u>
	<u>108,546</u>	<u>165,964</u>

Notes to Consolidated Financial Statements (unaudited)

March 31, 2008 and 2007

13. Debentures

	March 31 2008 \$	December 31 2007 \$
<hr/> \$3,000,000 non-secured non-convertible debenture, bearing interest at a rate of 12% annually, repayable by quarterly payments of \$500,000 plus interest starting April 2, 2007, and maturing June 2, 2008. Also, as part of this financing, share warrants were issued entitling the lender to purchase 2,000,000 common shares of the Company for a price of \$0.75 a share until October 25, 2011.	1,500,000	1,500,000
 \$6,845,000 (\$5,000,000 U.S at a fixed rate of 1.369) non-secured convertible debentures, bearing interest at a rate of 7% annually payable quarterly in arrears, maturing June 25, 2008, and convertible into 9,126,666 (2007 - 6,116,607) common shares of the Company at the sole option of the lender. The conversion rate of the debentures is the lower of then current rate (\$0.75) and the price of issued shares or financing while the U.S. debentures are outstanding. Also, as part of this financing, share warrants were issued entitling the lender to purchase 1,963,729 common shares of the Company for a price of \$1.17 a share until June 25, 2009.	6,845,000	6,845,000
 \$3,000,000 non-secured convertible debenture bearing interest at a rate of 12% annually maturing July 9, 2008, and convertible into 500,000 common shares of the Company until July 10, 2007. The interest on the debentures was capitalized and added to the cost of the debentures for the period of July 2002 to July 2003. The capitalized interest is payable in 60 monthly payments, which commenced in August 2003.	3,017,902	3,035,803
<hr/>		
Discount on debentures	11,362,902	11,380,803
Current portion of debentures	(101,292)	(210,073)
	(11,261,610)	(11,170,730)
<hr/>		
	-	-
<hr/>		

The nominal and effective interest rates are as follows:

	Nominal	Effective
<hr/> \$3,000,000 maturing June 2, 2008	12.0%	14.0%
\$6,845,000 maturing June 25, 2008	7.0%	10.0%
<hr/> \$3,000,000 maturing July 9, 2008	12.0%	14.0%
<hr/>		

Notes to Consolidated Financial Statements (unaudited)

March 31, 2008 and 2007

14. Capital stock

a) Authorized:

An unlimited number of the following classes of shares:

Preferred shares, issuable in series, without nominal or par value.

Common shares, voting, without nominal or par value.

b) Issued and fully paid:

	March 31, 2008		December 31, 2007	
	Number	Amount \$	Number	Amount \$
Balance, beginning of period	51,973,875	38,705,849	51,973,875	38,705,849
Transaction during period	-	-	-	-
Balance, end of period	51,973,875	38,705,849	51,973,875	38,705,849

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 Board of Directors, subject to the price restrictions imposed by the Exchange. The stock options are granted only to directors, officers, consultants, employees and other key personnel of the Company or its subsidiaries and only upon the recommendation of the Board of Directors of the Company.

The maximum number of common shares that are issuable under the Plan cannot exceed 4,319,273, i.e. 10% of the number of outstanding common shares at the time when the plan was amended.

Stock options granted under the Incentive Stock Option Plan may not be for a period longer than 10 years and the exercise price must be paid in full upon exercise. During 2003, in order to comply with the Exchange requirements, the Company amended its stock option plan changing the period from 5 years to 10 years.

As at March 31, 2008, the Company has granted options to purchase 1,068,900 (December 2007 - 1,087,900) common shares at various exercise prices, each pursuant to the Incentive Stock Option Plan of the Company, expiring no later than the year 2016.

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

	March 31, 2008		December 31, 2007	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Balance, beginning of period	1,087,900	1.10	1,391,734	1.11
Granted	-	-	-	-
Exercised	-	-	-	-
Cancelled	(19,000)	1.20	(303,834)	1.12
Balance, end of period	1,068,900	1.11	1,087,900	1.10
Exercisable at the end	961,900	1.12	923,903	1.13

Notes to Consolidated Financial Statements (unaudited)

March 31, 2008 and 2007

14. Capital stock... cont'd

Stock options outstanding are as follows:

Range of exercise prices \$	March 31, 2008		December 31, 2007			
	Number	Weighted average remaining life (years)	Weighted average exercise price \$	Number	Weighted average remaining life (years)	Weighted average exercise price \$
0.60 – 0.74	71,000	8.40	0.71	73,000	8.66	0.71
0.84 – 0.96	229,000	6.27	0.89	229,000	6.25	0.88
1.00 – 1.12	232,000	7.46	1.08	236,000	7.70	1.08
1.15 – 1.22	233,000	6.57	1.18	236,000	6.82	1.18
1.25 – 1.50	313,900	6.37	1.32	313,900	6.59	1.32
	<u>1,068,900</u>			<u>1,087,900</u>		

During 2008, the Company granted nil (2007 - nil) options to purchase common shares. The weighted average fair value of options granted during the period amounted to \$nil (2007 - \$nil) per option. The fair value of each option granted was determined using the Black-Scholes option pricing model and the following weighted average assumptions:

	March 31 2008	December 31 2007
Risk-free interest rate	4.28%	4.28%
Expected life	10 years	10 years
Expected volatility in the market price of the shares	73.3%	73.3%
Expected dividend yield	-	-

d) Share warrants

The share warrants outstanding are as follows:

Expiry date	Exercise price	March 31 2008	December 31 2007
June 25, 2009	\$1.17	1,963,729	1,963,729
June 28, 2009	\$1.50	2,149,180	2,149,180
October 25, 2011	\$0.75	2,000,000	2,000,000
Balance, end of period		<u>6,112,909</u>	<u>6,112,909</u>

On October 24, 2006, the Company issued a non-secured non-convertible debenture in the amount of \$3,000,000, and as a result of this financing, share warrants were issued entitling the lender to purchase 2,000,000 common shares of the Company for a price of \$0.75 a share until October 25, 2011.

In June 2004, the Company received a private placement in the amount of \$5,000,000 and issued convertible debentures in the amount of \$6,845,000. As a result of these transactions, the Company issued 4,112,909 share warrants, which could be used to purchase 4,112,909 common shares.

In October 2006, the exercise price of the 1,963,729 warrants expiring June 25, 2009, was amended from \$1.30 to \$1.17 further to a provision of the warrants providing that the conversion rate is the lower of \$1.50 and the price of issued shares while the U.S. debentures are outstanding.

Notes to Consolidated Financial Statements (unaudited)

March 31, 2008 and 2007

15. Information relating to the consolidated statements of earnings

For the three months ended March 31	2008 \$	2007 \$
a) The following items are included in cost of goods sold:		
Amortization of property, plant and equipment	304,993	390,371
Loss (gain) on foreign exchange	(82,833)	7,246
b) The following items are included in operating expenses:		
Amortization of property, plant and equipment	68,153	89,550
Amortization of intangible assets	14,741	15,784
Accretion of interest	108,781	148,595
Interest and bank charges	18,138	26,642
Interest on long-term debt	29,515	65,596
Interest on convertible debentures	207,590	252,768
Loss (gain) on foreign exchange	26	(630)
c) The following items are included in discontinued operations:		
Amortization of property, plant and equipment	-	21,266
Amortization of intangible assets	-	552
Interest and bank charges	-	4,753

16. Information relating to the consolidated statements of cash flows

a) Cash flows from operations include interest paid of \$150,888 (2007- \$250,705).

b) Net change in non-cash working capital items is comprised of the following:

For the three months ended March 31	2008 \$	2007 \$
Accounts receivable	229,376	299,731
Work-in-progress	(59,305)	(40,671)
Inventory	12,584	4,241
Investment tax credits receivable	-	(30,539)
Prepaid expenses	(128,211)	(128,413)
Accounts payable	221,392	322,860
Deferred revenue	780,427	(74,209)
	1,056,263	353,000

c) Cash and cash equivalents is comprised of the following:

As at March 31	2008 \$	2007 \$
Cash	1,762,999	2,885,771
Short-term investments and money market funds	-	1,500,000
	1,762,999	4,385,771

Notes to Consolidated Financial Statements (unaudited)

March 31, 2008 and 2007

17. Capital disclosures

The Company's objective when managing capital is to maintain adequate cash resources to support planned activities which include providing analytical, bioanalytical and medical laboratory services. The Company includes shareholders equity, cash, short-term investments and long term debt in the definition of capital. The Company currently has debt owing to the trade accounts payable, the bank, and the holders of the long-term debt and convertible debentures.

The Company's objectives when managing capital are to maintain financial flexibility in order to preserve its ability to meet financial obligations, including debt servicing payments.

In managing capital, the Company estimates its future cash requirements by preparing a budget and a multiyear plan annually for review and approval by the Company's Board of Directors. The budget establishes the approved activities for the upcoming year and estimates the costs associated with these activities. The multiyear plan estimates future activity along with the potential cash requirements and is based on the Company's assessment of its current services along with the expected results from the coming year's activity. Budget to actual variances are prepared monthly and reviewed by the Company's management and are presented quarterly to the Board.

Historically, funding for the Company's plan is primarily managed through the issuance of additional common shares, common share purchase warrants that upon exercise are converted to common shares, private placements from various institutions and the issuance of various debt instruments. Management regularly monitors the capital markets attempting to balance the timing of issuing additional equity with the Company's progress through its programs, general market conditions, and the availability of capital. There are no assurances that funds will be made available to the Company when required.

18. Segmented information

For the three months ended March 31, 2008, the Companies operated in the following industries:

	Revenue \$	Net earnings (net loss) \$	Amortization \$	Long-term assets \$	Total assets \$
Analytical services	3,186,831	339,502	139,212	2,710,413	5,757,801
Bioanalytical services	1,918,415	377,259	177,437	3,394,122	6,328,832
Medical laboratories	1,001,085	234,347	13,395	1,201,071	1,506,515
Management services	35,235	(1,237,430)	57,843	1,544,423	2,910,301
Continuing operations	6,141,566	(286,322)	387,887	8,850,029	16,503,449
Discontinued DNA detection technology	-	-	-	-	-
	6,141,566	(286,322)	387,887	8,850,029	16,503,449

Notes to Consolidated Financial Statements (unaudited)

March 31, 2008 and 2007

18. Segmented information... cont'd

For the three months ended March 31, 2007, the Companies operated in the following industries:

	Revenue \$	Net earnings (net loss) \$	Amortization \$	Long-term assets \$	Total assets \$
Analytical services	3,179,506	248,729	179,403	3,313,126	6,552,688
Bioanalytical services	2,174,102	556,775	219,329	4,121,063	7,026,251
Medical laboratories	769,455	230,671	8,146	1,225,867	1,733,396
Management services	38,948	(1,419,290)	88,827	1,933,508	5,574,172
Continuing operations	6,162,011	(383,115)	495,705	10,593,564	20,886,507
Discontinued DNA detection technology	225,242	(537,792)	21,818	-	132,726
	6,387,253	(920,907)	517,523	10,593,564	21,019,233

c) Revenues were derived from customers located in the following geographic areas:

	Continuing operations		Total	
	2008 \$	2007 \$	2008 \$	2007 \$
For the three months ended March 31				
Canada	3,940,017	3,817,654	3,940,017	3,890,831
United States of America	1,713,576	1,739,884	1,713,576	1,861,206
Rest of the world	487,973	604,473	487,973	635,216
	6,141,566	6,162,011	6,141,566	6,387,253

d) Revenues were generated in the following currencies:

	Continuing operations		Total	
	2008 \$	2007 \$	2008 \$	2007 \$
For the three months ended March 31				
Canadian dollars	4,584,537	3,938,627	4,584,537	4,011,804
U.S. dollars	1,557,029	2,223,384	1,557,029	2,344,707
Euros	-	-	-	30,742
	6,141,566	6,162,011	6,141,566	6,387,253

19. Related party transactions

During the period, an amount of \$139,162 of base rent (2007 - \$60,852) was paid to a company owned by the President, Chief Executive Officer and Director of the Corporation.

These transactions are measured at the exchange amount, which is the amount of consideration determined and agreed to by the related parties. The Company has a policy that any of the above type of transactions must be approved by the Board of Directors.

Notes to Consolidated Financial Statements (unaudited)

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20. Financial instruments**Financial risks**

The Company is exposed to a number of financial risks in the normal course of business operations, including interest rates and foreign currency exchange rates as well as credit risks and liquidity risks. The nature of these risks and the Company's strategy for managing these risks has not changed significantly from the prior period.

Fair value

The estimated fair value of certain financial instruments shown on the balance sheet is equivalent to their carrying amount because they are realizable in the short-term or items whose carrying amount approximates the fair value. The financial instruments include cash and cash equivalents, marketable securities, accounts receivable and accounts payable.

The fair value of long-term debt approximates market value and corresponds to those the Company would currently obtain for loans with similar maturity dates and terms. Considering the due dates of the long-term debt as at March 31, 2008, the fair value has been established at its carrying amount.

Credit risk

The Company, in the normal course of business, monitors the financial condition of its customers and reviews the credit history of each new customer. The Company establishes an allowance for doubtful accounts that corresponds to the credit risks of its specific customers, historical trends and economic circumstances.

The Company has one customer which accounts for approximately 20% of the accounts receivable as at March 31, 2008 (December 2007 - two customers for approximately 38%).

Interest rate risk

The Company has a line of credit and a portion of the long-term debt at variable interest rates. Consequently, the Company is exposed to interest rate risk as a result of potential rate fluctuations. A portion of the long-term debt is at fixed interest rates, which are not subject to interest rate fluctuations and accordingly minimizes its interest rate exposure.

Currency risk

The Company realizes some of its sales and purchases in foreign currencies. Consequently, it is exposed to fluctuations of these currencies. Assets and liabilities in other currencies are the following:

March 31, 2008	U.S. Dollars	Euro
Cash	166,502	-
Accounts receivable	1,922,726	-
Work-in-progress	55,320	-
Accounts payable	209,608	5,413
Deferred revenue	945,295	-

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk by forecasting cash flows to identify financing requirements by maintaining committed and demand credit facilities and by maintaining access to additional financing at competitive rates through capital markets and highly rated financial institutions.

Notes to Consolidated Financial Statements (unaudited)

March 31, 2008 and 2007

21. Subsequent events

- a) On March 19, 2008, the Company announced that it has entered into agreements in principle with the various holders of all of its outstanding debentures, aggregating \$11,345,000 in principal amount, in order to modify the terms and conditions of such debentures. The agreements in principle include the following elements:
- Elimination of the fixed conversion rate of 1.369 contained in the US dollar denominated debentures, therefore reducing the principal debt from CDN\$6,845,000 to US\$5,000,000;
 - Conversion of an aggregate of \$1,833,334 in principal into common shares of Warnex;
 - Repayment of an aggregate of \$1,333,333 in principal upon closing;
 - Deferral of an aggregate of \$6,333,333 in principal for three additional years;
 - Increase of the interest rate on the US dollar denominated debentures to 12% per annum;
 - Reduction in the exercise price of 3,963,729 warrants to \$0.25 and the extension of the term of 1,570,983 warrants by two years.

On May 5, 2008, the Company reported further details as to the implementation of this debt restructuring. Given the importance of implementing the debt restructuring as expeditiously as possible, the closing of the debt restructuring is expected to occur immediately following the execution of definitive documentation and the receipt of all requisite regulatory approvals, including the approval of the Toronto Stock Exchange. The closing may therefore occur prior to the expiry of the 21-day period otherwise contemplated by Regulation 61-101.

- b) The Company has entered into an agreement with Desjardins for financing and banking services as announced on May 6, 2008. As part of the agreement, the Company will receive financing facilities totalling \$4,000,000, which include a revolving line of credit of \$2,000,000 and a term debt of \$2,000,000. The proceeds of this financing will be used to repay certain debentures and the existing term debt with the National Bank of Canada, as well as for general working capital purposes.

22. Comparative figures

Certain figures in the 2007 financial statements have been restated to conform to the presentation in the current year.