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**ANNUAL INFORMATION FORM**  
For Fiscal Year Ended December 31, 2008

March 10, 2009

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Unless the context indicates otherwise, the use in this Annual Information Form of the terms “our”, “we”, the “Corporation”, and “Warnex” collectively refer to Warnex Inc. and barring contrary requirements or indications, to its subsidiaries.

## USE OF CURRENCY

Unless otherwise indicated in this Annual Information Form, all dollar amounts refer to Canadian dollars.

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Information Form 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 and 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 heading Risk and Uncertainties in the Corporation's most recent Management's Discussion and Analysis, which can be found at [www.sedar.com](http://www.sedar.com). Consequently, actual results may differ materially from the anticipated results expressed in these forward-looking statements.

## GLOSSARY

This glossary contains general terms used in the discussion of the biopharmaceutical industry, as well as specific technical terms used in the descriptions of the Corporation's technologies.

**AOAC Research Institute** – (“Association of Analytical Communities”) – The AOAC Research Institute is a subsidiary of AOAC INTERNATIONAL, a non-profit scientific organization dedicated to the development and validation of methods in analytical sciences and improving laboratory quality assurance procedures. The AOAC Research Institute administers the *Performance Tested Methods*<sup>SM</sup> Program, which independently validates laboratory testing methods.

**Clinical trial** – Organized study, with human volunteers or patients, designed to provide statistically relevant clinical data for determining the efficacy and safety of new therapeutic agents, diagnostics and medical devices.

**DNA** – (“Deoxyribonucleic acid”) – The chemical basis for heredity and the carrier of genetic information for most forms of life.

**Food and Drug Administration (“FDA”)** – The government agency which regulates the manufacture, safety, use and efficacy of biologicals, drugs, cosmetics, medical devices, and food (except meat and poultry) in the United States.

**ICH** – (“International Conference on Harmonisation of Technical Requirements for Registration of Pharmaceuticals for Human Use”) – The ICH establishes common technical guidelines for the pharmaceutical industry.

**Polymerase Chain Reaction (“PCR”)** – An in vitro biochemical reaction that multiplies specific DNA sequences such as molecular markers.

**Pathogen** – Bacterial, viral or fungal microorganism capable of causing disease or death.

**Real-Time PCR** – Real-time PCR monitors the fluorescence emitted during the reaction as an indicator of target DNA production during each PCR cycle (i.e. in real time) as opposed to endpoint detection.

**Therapeutic Products Directorate (“TPD”)** – Health Canada's Therapeutic Products Directorate is the Canadian federal authority that regulates pharmaceutical drugs and medical devices for human use.

## 1. CORPORATE STRUCTURE

Warnex was incorporated as Warnex Pharma Inc. by a Certificate of Incorporation issued pursuant to the provisions of the Canadian Business Corporations Act on January 4, 1996. The Articles of the Corporation were amended by a Certificate of Amendment issued on April 26, 1996, to increase the minimum number of Directors and to remove the private company provisions and the restrictions on share transfer. On June 14, 2001, the Corporation's Articles were further amended to change the name of the Corporation from Warnex Pharma Inc. to its current name and to change the location of the registered office of the Corporation from Calgary, Alberta, to Montreal, Quebec.

Warnex's head office, principal place of business and laboratories are located at 3885 Industriel Blvd., Laval, Quebec H7L 4S3. The Corporation also has laboratory facilities at 865, Michele-Bohec, Blainville, Quebec, J7C 5J6. The Corporation's Laval telephone number is (450) 663-6724 and its facsimile number is (450) 669-2784. Warnex's website is located at [www.warnex.ca](http://www.warnex.ca).

As of December 31, 2008, the Corporation's only significant subsidiary was Warnex Analytical Services Inc. ("Warnex Analytical"), a wholly-owned subsidiary of Warnex, incorporated pursuant to the provisions of the Canada Business Corporations Act.

## 2. GENERAL DEVELOPMENT OF THE BUSINESS

### OVERVIEW

Warnex completed its junior capital pool offering in June 1996 with the initial objective to acquire and develop businesses in the pharmaceutical sector.

In May 1998, the Corporation acquired the assets of Les Laboratoires Biopharm Inc., a business established since 1971, and this transaction was considered the major transaction of the Corporation pursuant to the rules of the Alberta Stock Exchange (now the TSX Venture Exchange). These assets were the foundation for what is now Warnex Analytical. Warnex Analytical offers analytical services including chemistry, chromatography, microbiology and method development to the pharmaceutical, biotechnology, cosmetics and veterinary industries. Since 1998, Warnex Analytical has operated from Warnex's facilities located in Laval, Quebec, and in September 2006 it added a second facility, following the acquisition of MDS Pharma Services' pharmaceuticals business, located in Blainville, Quebec. The acquisition operates as Neopharm Laboratories, a division of Warnex Analytical Services.

Warnex Bioanalytical Services was started internally in 2000 and grew organically. Warnex's Bioanalytical division ("Warnex Bioanalytical") offers a range of services to the pharmaceutical and biotechnology industries and specializes in bioavailability and bioequivalence studies for clinical trials and studies.

In 2000, Warnex acquired the Genevision technology and Warnex Research Inc. ("Warnex Research") was formed to focus on the development of this DNA detection technology. Warnex Diagnostics Inc. ("Warnex Diagnostics") was created in 2002 to commercialize the Warnex™ Rapid Pathogen Detection System for the food industry. In July 2007, Warnex sold the assets of its pathogen detection business to AES Laboratoire as part of Warnex's strategy to focus on laboratory services.

Warnex's Medical Laboratories division, formerly Warnex's Clinical Services division, which provides human medical testing services, was formed in June 2004, following the acquisition of assets of the Clinical Laboratory division of Adaltis Inc.. In May 2006 following the

acquisition of PRO-DNA Diagnostics Inc. (“PRO-DNA”), Warnex began offering genetic testing services. Warnex’s Medical Laboratories division and PRO-DNA Diagnostics are herein referred to as “Warnex Medical Laboratories”.

Warnex provides funds and operational support to its divisions and subsidiaries in order to enhance their operations.

### **THREE-YEAR HISTORY AND ACQUISITIONS**

#### *2006*

In February 2006, Warnex launched a quantitative test for *Campylobacter* for use with the real-time PCR-based Warnex™ Rapid Pathogen Detection System, making it the first PCR-based test available to the food industry that quantifies the amount of *Campylobacter* present in a sample. This quantitative *Campylobacter* test was granted Performance Tested<sup>SM</sup> status by the AOAC Research Institute in June 2006. In October 2006, Warnex announced that its *Salmonella* test used with the Warnex™ Rapid Pathogen Detection System had been approved by the U.S. Department of Agriculture’s (USDA) National Poultry Improvement Plan (NPIP).

Warnex Diagnostics signed up two new customers, AmeriSci Bio-Chem and JEM Analytical Laboratory Services.

In May 2006, Warnex concluded the acquisition of all the issued and outstanding shares of PRO-DNA Diagnostics, a laboratory offering genetic testing services, for the purchase price of \$1,389,870 paid in cash and a maximum value of \$500,000 that will become payable either in common shares of Warnex or in cash, at Warnex’s option (the “Earn-Out”). The Earn-Out is contingent upon PRO-DNA Diagnostic’s operations generating revenue in excess of \$1 Million for the twelve-month period ending April 30, 2008. The Corporation did not file a Form 51-102F4 in respect of the acquisition.

On September 1<sup>st</sup>, 2006, Warnex acquired the MDS Pharma Services pharmaceuticals business located in Blainville, Quebec for a purchase price of \$1,950,112 paid in cash. The Corporation did not file a Form 51-102F4 in respect of the acquisition.

In May 2006, Opmedic Group Inc. (“Opmedic”) advised Warnex that its Procrea Cliniques division would offer a prenatal test which would compete with Warnex’s Prenatest® prenatal screening test. In June 2006, Warnex obtained from the Superior Court of Quebec a safeguard order which required that Opmedic refer exclusively to Warnex all blood samples collected for the purpose of prenatal screening, and following an attempt by Opmedic to terminate its contract with Warnex, Warnex obtained in July 2006 an order enjoining Opmedic to maintain in effect and to respect the terms of this contract until October 2006, the date on which the parties were scheduled to return before the Supreme Court. In October 2006, Warnex and Opmedic announced the settlement of their dispute whereby Opmedic agreed to pay Warnex a total of \$1,250,000, half payable in October 2006 and the second half in October 2007, and Opmedic was granted the right to offer any prenatal screening test without any restriction regarding blood sample collection. In 2005, Procrea Cliniques represented approximately 50% of Prenatest screening test revenues, or 6% of Warnex’s total revenues.

In May 2006, Warnex concluded a distribution agreement with Foss U.K. Ltd. to distribute and market the Warnex™ Rapid Pathogen Detection System in the United Kingdom and Ireland. Foss U.K. is a wholly owned subsidiary of FOSS A/S based in Denmark. Foss U.K. replaced Warnex's previous distributor for the U.K., Don Whitley Scientific Limited.

In August 2006, Warnex announced that it had formed a strategic alliance with Eppendorf, a global leader in the laboratory equipment market, in order to combine Eppendorf's state-of-the-art Mastercycler® ep realplex real-time PCR system with Warnex's pathogen detection kits and software to provide enhanced food safety tests.

In September 2006, Warnex announced that Mr. Eric Veilleux, Principal Director, Investment Support for the SGF, had joined the Board of Directors in replacement of Daniel Boulais, Senior Vice-President, Investments, Agri-Food for the SGF, who had recently resigned as a director of Warnex.

In October 2006, Warnex obtained a global financing of CDN\$4 million, including the issuance of an unsecured debenture of \$3 million and the increase of its operating line of credit by \$1 million. Warnex issued a non-convertible unsecured debenture, bearing interest of 12% per year, in the amount of \$3,000,000 to SIPAR Inc. The debenture matures in June 2008 with capital and interest payable quarterly starting April 2, 2007. The investor has also received 2,000,000 warrants, each warrant allowing the purchase of one common share at a price of \$0.75 per share, for a period of 60 months following the date of closing. In addition, the National Bank of Canada's Health Group has authorized the increase of Warnex's operating line of credit from \$1 million to \$2 million.

In December 2006, Warnex announced its decision to explore strategic alternatives for its pathogen detection business including partnerships, joint ventures or the sale of this business, in order to enhance shareholder value. Warnex mandated a U.S.-based investment banking firm, Kirchner & Company, Inc., to act as its agent in the process.

## 2007

In January 2007, Warnex announced that its Medical Laboratories division would develop new pharmacogenetic assays and serve as a central laboratory for several clinical studies of Schering-Plough Canada, a leader in the discovery and development of pharmaceutical products. In April 2007, Warnex announced that it would perform pharmacogenetic and bioanalytical services for Novartis Pharmaceuticals Canada Inc., a leader in the healthcare field. These services involved Novartis' Blood Level Monitoring Program for Gleevec® (imatinib mesylate), a medication approved for the treatment of patients with chronic myeloid leukemia and gastro-intestinal stromal tumours.

In April 2007, Warnex reported the favourable outcome from an inspection of its Bioanalytical facilities performed by the U.S. Food and Drug Administration (FDA).

In April 2007, Warnex announced that it had initiated a review of various strategic options for its ongoing laboratory service business in order to enhance shareholder value. These options included, but were not limited to, partnerships, mergers or the sale of the Company. The Board of Directors created an Independent Committee to identify and evaluate such options and mandated an investment banking firm to act as its advisor in this process. In May 2007, Warnex announced that it engaged GMP Securities L.P., an institutional investment dealer with locations across Canada, to act as advisor in its review of strategic options.

In June 2007, Warnex signed an agreement with Clinique radiologique Quatre-Bourgeois to provide the Prenatest® prenatal screening test in Quebec City.

In July 2007, Warnex concluded the sale of the assets of its pathogen detection business to AES Laboratoire for a total price of \$900,000 in cash, one third was paid upon closing and one third to be paid on each of the first and second anniversary dates of the closing. The transfer of assets was effective as of June 28, 2007.

In August 2007, Warnex signed an exclusive agreement with Ipsogen SAS, a molecular diagnostic company based in Marseille, France, committed to developing tests to improve the disease management of cancer patients. Ipsogen granted Warnex exclusive rights, for the Canadian Territory, to market a service for the analysis of variations of the JAK2 gene for the diagnosis and the classification of a group of leukemias. In September 2007, Warnex Medical Laboratories signed an agreement with Organon Canada Ltd., a renowned biopharmaceutical company based in Scarborough, Ontario, to provide bioavailable testosterone testing to their customers across Canada.

In December 2007, Warnex announced that it had finalized its review of various strategic options for its ongoing laboratory services business. Warnex's Board of Directors concluded that the option which provided the most value for its shareholders was the continued operation of its laboratory services business. Warnex ended this review process and terminated the mandates of the Independent Committee of the Board of Directors and GMP Securities L.P. The Company decided to focus on maximizing the profitability of its analytical, bioanalytical and medical laboratory divisions, on their continued growth as well as on the refinancing and restructuring of its debt instruments.

## 2008

In January 2008, Warnex obtained a waiver from SIPAR Inc. for the Company's quarterly capital repayment of \$500,000 which was due on January 3, 2008. SIPAR allowed Warnex to repay this amount any time up to April 1<sup>st</sup>, 2008. This agreement was part of Warnex's strategy, following its announcement on December 20, 2007, to refinance and restructure its debt instruments in order to present a more stable balance sheet in the near future.

In February 2008, Warnex entered into a lease with Busgang Investments Inc. to lease 44,073 square feet of space in its existing premises at 865 Michèle-Bohec Blvd., Blainville, Quebec for a term of 10 years. In addition, the lease for its facilities located at 3885 Industriel Blvd., Laval, Quebec, was extended to January 31, 2018. Effective October 1<sup>st</sup>, 2008, the Company began to pay rent to an unrelated party. The terms and conditions of the leases remained unchanged.

In February 2008, Warnex announced that it would restate its financial statements for prior years due to a non cash accounting error in the presentation of the debt component of the 2002 and 2004 debentures. This error in the interpretation of an accounting principle did not impact the Company's internal controls.

In February 2008, Warnex's Medical Laboratories division obtained a licence from Xenomics, Inc. to offer NPM1 testing in Canada as a laboratory service for the diagnosis, stratification and monitoring of patients with acute myeloid leukemia.

In March 2008, Warnex's Medical Laboratories division launched a new screening service for prostate cancer, the PCA3 assay. The Warnex PCA3 screening service for prostate cancer uses advanced PCR technology to detect mRNA from the prostate cancer gene 3 (PCA3). Warnex was the first laboratory to offer this service in Canada.

In March 2008, Warnex 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 included 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 \$1,830,200 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.

In April 2008, two new directors joined Warnex's Board of Directors: Gilles Gagnon, a consultant with over 25 years experience within the field of health and former CEO of AEterna Zentaris, and Mattie Chinks, President of Avmor Ltd., a leading company in the development and manufacturing of professional cleaning and sanitation products and cleaning solutions. The following members stepped down from the Board of Directors: Warren Haber, Diane Lanctôt, Marc Lussier and Terrance Mailloux.

In May 2008, Warnex announced that it closed the debt restructuring announced in March 2008. The Corporation also signed an agreement with Desjardins Group, the largest financial cooperative in Canada, for financing and banking services. As part of the agreement, Warnex received financing facilities totalling \$4 million, which included a revolving line of credit of \$2 million and a term debt of \$2 million.

In June 2008, Warnex launched a new website – [www.prodna.ca](http://www.prodna.ca) – for its DNA identification tests, including the PRO-DNA™ Paternity Test.

In July 2008, Warnex announced that its Analytical Services division is now offering advanced analytical testing using UPLC® (Ultra Performance Liquid Chromatography) technology.

In August 2008, Warnex reported the favourable outcome from an inspection of its facilities performed by the U.S. Food and Drug Administration (FDA). The FDA inspected and reviewed Warnex's analytical laboratories, located in its Laval facilities, its quality control systems and client-specific studies.

In September 2008, Warnex announced that its Medical Laboratories division obtained ISO accreditation by the Standards Council of Canada (SCC) and launched its DNA identification testing services for immigration and forensic purposes. Warnex is the only Quebec-based laboratory recognized by Citizenship and Immigration Canada to perform DNA identification tests for immigration purposes.

In October 2008, Warnex became the exclusive Canadian distributor of molecular diagnostic tests for GENDIA (www.gendia.net), an international network consisting of more than 50 laboratories located in the USA, Europe and Australia, offering more than 2,000 different genetic tests.

In October 2008, Warnex's Bioanalytical Services division acquired two state-of-the-art TSQ Vantage mass spectrometers from Thermo Fisher Scientific Inc.

### 3. NARRATIVE DESCRIPTION OF THE BUSINESS

#### **GENERAL**

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 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. In the last quarter of 2006, the decision was made to divest these activities which were sold, in July 2007, to AES Laboratoire.

#### **SOURCES OF REVENUE**

The following table sets out, for each of the two most recently completed financial years, the revenues for each category of products and services.

<b>Product/Service</b>	<b>2008</b>	<b>%</b>	<b>2007</b>	<b>%</b>
Analytical services	11,829,730	45.9%	\$12,587,640	49.4
Bioanalytical services	9,924,449	38.5%	9,116,173	35.8
Medical testing	3,857,386	15.0%	3,137,859	12.3
DNA detection technology	-	-	478,713	1.9

#### **WARNEX ANALYTICAL SERVICES**

Warnex Analytical provides analytical services including chemistry, chromatography and microbiology to the pharmaceutical, biotechnology, cosmetics and veterinary industries. With its main facilities in Laval as well as its Neopharm Laboratories division in Blainville, Warnex: performs a wide variety of quality control tests on raw materials as well as finished products; offers a full range of ICH stability conditions and provide total stability management; develops and validates new methods; revalidates existing methods to ensure compliance with current regulatory requirements and performs technology transfers.

Following audits by the FDA and TPD, Warnex Analytical Services remains in good standing on all matters of Good Laboratory Practices (GLP) and current Good Manufacturing Practices (cGMP).

### MARKET

In the United States, revenue generated by the total analytical services market was approximately US\$600 million in 2005, a 3% increase from the previous year, and is estimated to reach US\$743 million in 2012 (Frost & Sullivan, 2006). The growth in the analytical market is driven by steady demand from pharmaceutical companies, who are increasingly outsourcing laboratory services to reduce costs.

With the acquisition of the MDS Pharma Services pharmaceuticals business in Blainville, Warnex now holds a dominant position in the analytical services market in the province of Quebec. Warnex is now focusing on reaching beyond our regional market and more aggressively pursuing international growth.

Warnex Analytical's most important customer accounted for 23% of sales in 2008. This customer has remained Warnex Analytical's largest customer since 1998 and we consider that our relationship with this important customer is good. Warnex Analytical is not substantially dependant upon any supplier in order to carry on its business.

### COMPETITION

Warnex Analytical competes with companies such as Nucro Technics, a private company and Patheon, a public company, both located in Ontario, and K.A.B.S. Laboratories Inc., a private company located in Saint-Hubert, Quebec.

### **WARNEX BIOANALYTICAL SERVICES**

Warnex Bioanalytical provides services to pharmaceutical and biotechnology companies globally. A scientific team of specialists in research and development, method development and validation, production, and quality assurance, use state-of-the-art equipment and the latest techniques to develop highly exacting analytical methods that are validated in accordance with the highest standards imposed by both the FDA and the TPD. Warnex Bioanalytical supports companies in their drug development programs by carrying out analyses generated throughout the program, beginning with pre-clinical studies and proceeding with evaluation of the drug in human clinical trials. Support to the generic drug industry is provided by analyzing physiological fluid samples obtained from studies in humans to determine whether the new formulations are bioequivalent to the marketed product.

### MARKET

In 2007, the biopharmaceutical industry spent US\$58.8 billion on drug research and development in the United States alone (Pharmaceutical Research and Manufacturers of America, 2008). In Canada, the brand-name pharmaceutical industry spent \$1.3 billion on R&D in 2007 (PMPRB, 2008), while the generic drug industry spent \$450 million (CGPA, 2008). The market for contract research outsourcing, which represents the market for Warnex Bioanalytical, is growing and is projected to exceed US\$26.2 billion by 2012 (Global Industry Analysts, 2008). In addition, the generic drug industry is experiencing a strong growth, with US\$100 billion worth of blockbuster drugs losing patent from 2008 to 2012 (Visiongain, 2008). We anticipate this will increase the demand for bioanalytical services in upcoming years.

Warnex Bioanalytical's largest customer accounted for 21% of this division's revenues in 2008 and we consider that our relationship with this important customer is good. Warnex Bioanalytical is not substantially dependant upon any supplier in order to carry on its business.

## COMPETITION

Warnex Bioanalytical competes with companies such as MDS Inc., PharmaNet Development Group, Inc. and Algorithmic Pharma, all of which are providers of clinical and bioanalytical laboratory services. Considering the size of the North-American and global market, of which Warnex has a very small share, and the expected growth in the bioanalytical market, we do not consider competition as an important threat in maintaining our current business and expanding our customer base.

## WARNEX MEDICAL LABORATORIES

Warnex Medical Laboratories was created in 2004 with the acquisition of the assets of Adaltis Inc.'s Clinical Laboratory division. Warnex Medical Laboratories provides specialized laboratory testing services to the healthcare sector.

Warnex Medical Laboratories' revenues are mainly derived from two sources: biochemical testing, which includes the Prenatest<sup>®</sup> prenatal screening test, which enables pregnant women to find out their risk of carrying a foetus affected by Trisomy 21 (Down syndrome), Trisomy 18, and other chromosomal anomalies, as well as genetic testing, which has been added to our service offering following the acquisition in May 2006 of PRO-DNA Diagnostics.

The Prenatest method is relatively simple and, contrary to amniocentesis, does not pose any danger to the mother and foetus. It is performed by taking a few drops of blood from the tip of the expectant mother's finger combined with ultrasound measurements, such as nuchal translucency and nasal bone. This test is usually performed during the first trimester.

Our genetic testing services include:

- Person identification testing: paternity testing, family relationships, forensic testing, etc.;
- Molecular diagnostics: DNA-oriented genetic predisposition tests and specialized assays within the fields of haematology, oncology and infectious diseases; and
- Pharmacogenetic services: assays monitoring genetic factors that influence an individual's reaction to a drug.

Warnex Medical Laboratories also develops innovative assays and refines existing ones to produce assays with greater clinical value and relevance for reliable and cost-effective patient assessment and management. With our growing array of assays, Warnex Medical Laboratories is focused on establishing a pre-eminent role in providing specialized laboratory testing services in Canada. We perform testing in a wide range of clinical specialties, including endocrinology, genetics, infectious diseases, obstetrics/gynaecology, and oncology.

## MARKET

In 2007, there was a total of 84,200 births reported in the province of Quebec, an increase of 2.6% over the previous year (Institut de la Statistique du Québec, 2008). We estimate our market potential for the Prenatest prenatal screening test to be close to 35,000 tests, 3 times the number of Prenatest tests actually performed in 2008. In the Province of Ontario, where prenatal screening tests are offered and paid for by the Government of Ontario, approximately 50% of pregnant women choose to have this type of test (Summers, A.M., et al. 2003).

The market for human identification testing is divided into two segments: private identification of persons, such as paternity testing, which is mainly requested for legal settlement purposes, and forensic testing, which is carried out by government agencies. According to the AABB

Parentage Testing 2004 report, relationship tests performed in laboratories surveyed in the United States, Canada, and the United Kingdom, increased by 10.3% from 2003 to 2004.

The genetic testing market is divided into three segments: prenatal screening, predisposition and diagnostic testing, and pharmacogenetics. In the United States, the market for prenatal screening was valued at US\$335 million in 2004 and is expected to rise to US\$796 million by 2011 at a compound annual growth rate (CAGR) of 13% (Frost & Sullivan, 2005). The market for predisposition and diagnostic testing is expected to rise from US\$100 million in 2004 to US\$286 million in 2011 at a CAGR of 16% (Frost & Sullivan, 2005). The pharmacogenetic testing market shows the highest growth rate, with 26%, going from US\$95 million in 2004 to a forecast of US\$468 million in 2011 (Frost & Sullivan, 2005).

### COMPETITION

The traditional method for determining if a foetus is affected by the most common birth anomalies is the amniocentesis. This test is performed by the insertion of a needle through the abdomen to withdraw amniotic fluid from the uterus. While the results of this method have a high rate of accuracy, the test entails a significant risk of causing a miscarriage. The Prenatest method, in turn, is safe for the mother and foetus. The Prenatest screening test and amniocentesis do not compete directly. A patient can have a risk assessment done using the Prenatest method and, upon consultation with her physician, may elect to proceed to an amniocentesis. The results of the tests are available within one week, while those of the amniocentesis usually require a minimum of four weeks.

Prenatal screening competitors in the province of Quebec include Opmedic Group Inc., CDL Laboratories Inc., Curalab Medical Laboratory and public hospitals. The public sector offers biochemical assays without ultrasound measurements, at no cost for the patient. However, the sensitivity and specificity of these assays are lower than when combined with the ultrasound measurements. The Corporation believes that its Prenatest method offers the most accuracy in first trimester prenatal screening of Down syndrome.

### INTANGIBLE PROPERTY

“Warnex” and “Prenatest” are registered trademarks of Warnex in Canada. The Corporation has also filed for the registration of its trademarks “PRO-DNA” and “PRO-ADN” in Canada. The Corporation’s strategy is to apply for trademarks whenever appropriate.

### FACILITIES

The Corporation leases a 55,000 sq. ft. facility at 3885 Industriel Boulevard in Laval, Quebec, which includes its offices and laboratories. The initial term of the lease expired in June 2006 and the Corporation has exercised an option to renew the lease for five years, up to June 30, 2011. On February 1<sup>st</sup>, 2008, this lease was amended to extend its term to January 31, 2018. Thereafter, the Corporation has options to renew the lease for two additional five-year periods.

The Corporation also leased a 23,958 sq. ft. facility at 865 Michèle-Bohec Boulevard in Blainville, Quebec, which includes offices and laboratories. The initial term of the lease expired on August 30, 2007, and was renewed for one additional period of six (6) months, ending on February 28, 2008. On February 1<sup>st</sup>, 2008, a new lease was concluded for the entire premises, being 44,073 sq. ft., for an initial term expiring on January 31, 2018. Thereafter, the Corporation has options to renew the lease for two additional five-year periods.

## **ENVIRONMENT**

Warnex generates a very small amount of hazardous waste that is disposed of by certified third-party carriers. We believe that compliance with environmental regulations has no material impact on capital expenditures, earnings or our competitive position.

## **HUMAN RESOURCES**

As of December 31, 2008, the Corporation had 244 full-time employees. 139 are employed in Warnex Analytical, 69 in Warnex Bioanalytical, 20 in Warnex Medical Laboratories, and 16 in corporate services.

Warnex Analytical employees in Laval are represented by a union. The contract was renewed in 2008 for a period of 4 years. The Corporation has not had any labour-related work stoppages during the preceding five years.

Warnex's management team has experience in the fields of genomics, chemistry, microbiology, finance and administration, sales and marketing, as well as in the management of public companies. Due to the nature of the Corporation's laboratory activities, most of the Corporation's employees hold degrees in science, ranging from CEGEP to doctorate degrees, as well as experience in the fields of medical testing, chemistry, microbiology or biochemistry.

## **FOREIGN OPERATIONS**

For the year ended December 31, 2008, approximately 40% of Warnex's revenues were from outside Canada, mainly the United States. Warnex's costs are mainly in Canadian dollars.

Warnex is exposed to currency fluctuations; however, most of our U.S. revenues are currently derived from Warnex Bioanalytical, which usually performs contracts of a duration of three months.

## **REORGANIZATION**

On December 31, 2006, all of the assets and liabilities of PRO-DNA Diagnostics were transferred into Warnex Inc. PRO-DNA Diagnostics was dissolved on July 25, 2007.

On August 31, 2007, all of the assets and liabilities of Warnex Diagnostics Inc. and Warnex Research Inc. were transferred into Warnex Inc. On September 11, 2007, both Warnex Diagnostics Inc. and Warnex Research Inc. were dissolved.

## **RISK FACTORS**

The business conducted by the Corporation involves numerous risks and uncertainties. The main risk factors and uncertainties facing the Corporation are disclosed in the "Risk and Uncertainties" section of the Corporation's Annual Report for the year ended December 31, 2008, which is incorporated herein by reference, as supplemented from time to time in the "Risk Factors and Uncertainties" section of the Corporation's quarterly reports to shareholders. These risks and uncertainties should be considered in conjunction with the other information included in this Annual Information Form. The Corporation's annual and quarterly reports are filed on SEDAR at [www.sedar.com](http://www.sedar.com).

#### 4. MANAGEMENT DISCUSSION AND ANALYSIS

Please refer to the 2008 Management's Discussion and Analysis filed on SEDAR at [www.sedar.com](http://www.sedar.com), which is incorporated herein by reference.

#### 5. DIVIDEND POLICY

The Corporation has not paid any dividends on its common shares. Since we intend to retain any future earnings to finance the development of our business, we do not anticipate paying any dividends in the near future. Any decision to pay dividends in the future will be based on the Corporation's earnings and financial requirements and other factors that the Board of Directors may consider appropriate under the circumstances.

#### 6. GENERAL DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of the Corporation consists of an unlimited number of common shares and an unlimited number of preferred shares, without nominal or par value. As of December 31, 2008, 64,317,191 common shares and no preferred shares were issued and outstanding.

The following is a summary of the material provisions concerning the various classes of shares of our authorized share capital and is subject to the complete text of the rights, privileges, conditions and restrictions attached to these shares.

##### **COMMON SHARES**

###### VOTING RIGHTS

Each common share entitles its holder to one vote.

###### DIVIDENDS

The holders of common shares are entitled to participate in any dividend which may be declared, subject to the rights, privileges, restrictions and conditions attached to the preferred shares.

###### LIQUIDATION

The holders of common shares shall be entitled to share pro rata in any distribution of the assets of Warnex in the event of liquidation, dissolution or winding up of the Corporation or other distribution of the assets of the Corporation among shareholders. Such participation is subject to the rights, privileges, restrictions and conditions attached to the preferred shares of the Corporation.

##### **PREFERRED SHARES**

Preferred shares may be issued from time to time in one or more series, the terms of each series including the number of shares, designation, rights, privileges, restrictions and conditions to attach to the preferred shares of each series to be determined by the directors of the Corporation without shareholder approval, provided that all preferred shares will rank, with respect to dividends and distribution of assets in the event of liquidation, dissolution, winding-up or other distribution of assets of Warnex among shareholders for the purpose of winding-

up its affairs, in priority to common shares and provided that they may also be given such other preferences over the common shares and any other shares of the Corporation ranking junior to the preferred shares as may be fixed by the resolution of the directors of the Corporation as to the respective series authorized to be issued. The preferred shares of each series shall rank on a parity with the preferred shares of every other series with respect to priority in the payment of dividends and in the distribution of assets in the event of liquidation, dissolution or winding up of the Corporation.

## 7. MARKET FOR SECURITIES

The common shares of the Corporation are listed for trading on the Toronto Stock Exchange under the trading symbol WNX.

### **TRADING PRICE AND VOLUME**

The following table sets out the price ranges and volume of trade of Warnex's common shares on the Toronto Stock Exchange during 2008.

<b>Month</b>	<b>High \$</b>	<b>Low \$</b>	<b>Volume</b>
January	0.195	0.09	717,807
February	.20	.115	349,239
March	.175	.13	226,700
April	.15	.10	351,562
May	.24	.10	2,249,486
June	.12	.09	943,200
July	.115	.07	731,100
August	.115	.075	680,400
September	.10	.08	881,715
October	.075	.035	1,551,302
November	.06	.04	2,247,575
December	.06	.04	2,928,194

## 8. DIRECTORS AND EXECUTIVE OFFICERS

### **DIRECTORS**

The following table sets forth each director's name, province or state and country of residence, his principal occupation, the year in which he or she first became a director, and the number of shares of the Corporation beneficially owned, directly or indirectly, or over which control or direction was exercised by each director as at March 10, 2009. Directors are elected until the next annual meeting of shareholders; all directors are candidates for re-election at such annual meeting as set out in the Corporation's Management Proxy Circular dated March 10, 2009. The Corporation's Management Proxy Circular is filed on SEDAR at [www.sedar.com](http://www.sedar.com).

Name and Province or State and Country of Residence	Position within the Corporation	Principal Occupation	Year of Nomination as a Director	Number of Shares of the Corporation
Richard Laferrière Quebec, Canada	Chairman of the Board	Executive Chairman, Extenway Solutions Inc.	1996	750,000
Mark J. Busgang Quebec, Canada	President and Chief Executive Officer and Director	President and Chief Executive Officer, Warnex Inc.	1998	5,499,400
Louis Lacasse Quebec, Canada	Director	President, GeneChem Management Inc.	1998	45,000
Hubert Marleau Quebec, Canada	Director	President, Palos Capital Corporation	2000	Nil
Dr. Jacques Gagné Quebec, Canada	Director	Consultant	2001	42,000
Eric Veilleux Quebec, Canada	Director	Senior Director, Investment Support, Société générale de financement du Québec	2006	Nil
Gilles Gagnon Quebec, Canada	Director	Consultant	2008	Nil
Mattie Chinks Quebec, Canada	Director	President, Avmor Ltd.	2008	260,000

Following are brief biographies of Warnex directors:

*Richard Laferrière* – Mr. Laferrière has been Chairman of the Board of the Corporation since 1996. Mr. Laferrière has been Executive Chairman of Extenway Solutions Inc. since May 2008 and Chairman of the Board of FRV Media Inc. since May 2008. From 2000 to 2008, Mr. Laferrière was President and Chief Executive Officer as well as Director of FRV Media Inc. He was also a shareholder and member of the Board of “HR Stratégie”, a private equity firm, from 2000 to 2006. He was co-founder and President of Groupe Coscient from 1978 to 1999. In 2007, Mr. Laferrière joined the Board of Directors of Fronsac Capital Inc.

*Mark J. Busgang* – Mr. Busgang has served on the Corporation’s Board and has been President and Chief Executive Officer of the Corporation since February 1998. From 1993 to 1996, he was President of Pharmetics Ltd. and Vice President of Operations of Theratechnologies Inc.

*Louis Lacasse* – Mr. Lacasse has been President of GeneChem Management Inc. since 1997 and Managing Partner of AgeChem Financial Inc. since 2006. Mr. Lacasse is currently on the boards of directors of Methylgene Inc. and Calyx Bioventures. He has previously served on the boards of directors of many private and public companies including BioChem Pharma Inc., Axcan Pharma Inc., Targeted Genetics Inc., and Idun Pharmaceuticals Inc.

*Hubert Marleau* – Mr. Marleau has been President of Palos Capital Corporation since May 1998. Mr. Marleau is currently a Director of the following publicly traded companies: Artevo Corporation, Buzz Telecommunication Services Inc., CanAlaska Uranium Ltd. (formerly CanAlaska Ventures Ltd.), Fregold Ventures Limited, Global Development Resources, Inc.,

GobiMin Inc., Huntington Exploration Inc., Maudore Minerals Ltd., MCO Capital Inc., Mitec Telecom Inc., Niocan Inc., Sofame Inc. and Uni-Select Inc.

*Dr. Jacques Gagné* – Dr. Gagné is a former Professor (1972 to 2002) and Dean (1982 to 1990) of Pharmacy at Université de Montréal. Since April 2001, Dr. Gagné serves as a consultant to several companies in the biotechnology and healthcare fields. Among others, he is Chairman of the Québec Biotechnology Innovation Center (QBIC) and President of the “Fond d’assurance responsabilité de l’Ordre des pharmaciens du Québec”.

*Eric Veilleux* – Mr. Veilleux is Senior Director, Investment Support, for the Société générale de financement du Québec (“SGF”). Mr. Veilleux has many years of experience in the world of accounting and finance. Prior to joining the SGF, he was an advisor for Raymond Chabot Grant Thornton, from 1998 to 2001 and a director at KPMG from 1992 to 1998.

*Gilles Gagnon* – Mr. Gagnon serves as a consultant to several companies in the biopharmaceutical and healthcare fields. Mr. Gagnon spent 25 years in the management of healthcare related organizations in both hospital administration (8 years) and in the pharmaceutical industry (17 years). Between 1999 and 2007, Mr. Gagnon worked at Aeterna Zentaris, a biopharmaceutical company focused on oncology and endocrinology, where he held the positions of Vice-President, Business Development (1999-2001), President and Chief Operating Officer (2001-2003) and President and Chief Executive Officer (2003-2007). Mr. Gagnon is also Acting President and Director of Ceapro Inc.

*Mattie Chinks* – Mr. Chinks has been President of Avmor Ltd. since 1996. Mr. Chinks has previously served as President and International Director of the International Sanitary Supply Association and currently sits on the Board of Directors of The Royal Victoria Hospital Foundation and Cannon Hygiene Canada.

#### COMMITTEES OF THE BOARD

The table below lists the committees of the Board of Directors of the Corporation and their members:

Audit Committee	Human Resources and Remuneration Committee	Corporate Governance Committee
Louis Lacasse	Jacques Gagné	Richard Laferrière
Hubert Marleau	Eric Veilleux	Jacques Gagné
Eric Veilleux	Mattie Chinks	
Gilles Gagnon		

#### EXECUTIVE OFFICERS

The following table sets forth the name, province and country of residence, position and office held with the Corporation, the principal occupation of each of Warnex’s executive officers and the number of shares of the Corporation beneficially owned, directly or indirectly, or over which control or direction was exercised by each executive officer as at March 10, 2009.

Name and Province of Residence	Position within the Corporation	Principal occupation	Number of shares of the Corporation
Mark J. Busgang Quebec, Canada	President and Chief Executive Officer	President and Chief Executive Officer, Warnex Inc.	5,499,400
François Jetté Quebec, Canada	Chief Financial Officer	Chief Financial Officer, Warnex Inc.	Nil
Dr. Michael Mancini Quebec, Canada	President, Warnex Bioanalytical Services	President, Warnex Bioanalytical Services	109,000
Erik Yelle Quebec, Canada	Vice President, Operations, Warnex Analytical Services	Vice President, Operations, Warnex Analytical Services	Nil
Dr. Yvan Côté Quebec, Canada	Vice President and General Manager	Vice President and General Manager, Warnex Medical Laboratories	222,867

Following are brief biographies of Warnex Officers:

*Mark J. Busgang* – Mr. Busgang has been President and Chief Executive Officer of the Corporation since February 1998. From 1993 to 1996, he was President of Pharmetics Ltd. and Vice President of Operations of Theratechnologies Inc.

*François Jetté* – Mr. Jetté has been Chief Financial Officer of Warnex since April 2008. From November 2005 to March 2008, Mr. Jetté was Warnex's Corporate Controller. From 1999 until joining Warnex, Mr. Jetté was Controller for Pretium Canada Company. From 1997 to 1999, he was Controller for Naya Inc.

*Dr. Michael Mancini* – Dr. Mancini has been President of Warnex Bioanalytical Services since 2002. Dr. Mancini was also President of Warnex Analytical Services Inc. from June 2000 to March 2007. From 1996 until joining Warnex, he was Director of Business Development and Scientific Liaison with MDS Pharma Services Inc.

*Erik Yelle* – Mr. Yelle has been Vice President, Operations of Warnex Analytical Services Inc. since March 2007. Mr. Yelle was also Vice President, Sales & Marketing of Warnex Diagnostics Inc. from January 2006 to June 2007. From June 2003 until joining Warnex, he was Vice-President Sales and Marketing, Wong Wing Foods Inc. (a McCain Foods company). In 2003, he was Retail Category Manager for McCain Foods Canada, and between 1998 and 2002, he was the Quebec Director of Sales for McCain Foods Canada.

*Dr. Yvan Côté* – Dr. Côté has been Vice President and General Manager of Warnex Medical Laboratories since January 2005. Dr. Côté was also Vice President, Research & Development of Warnex Research Inc. from September 2003 to June 2007. From January 2003 until joining Warnex, he was Director, Clinical Research with ART Advanced Research Technologies Inc. Dr. Côté held different positions with Adaltis Inc. (BioChem ImmunoSystems Inc.), including Director, Clinical Laboratory and Research & Development, from June 1995 to July 2003.

As of March 10, 2009, the directors and senior officers of the Corporation as a group beneficially own, directly or indirectly or exercise control or direction on 6,928,267 outstanding common shares, being 11% of the issued and outstanding common shares of the Corporation.

## **CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS**

To the knowledge of Warnex and based on information provided by the nominees, with the exception of the facts disclosed below with respect to Mr. Marleau, Mr. Laferrière, Mr. Lacasse, Dr. Gagné and Mr. Busgang:

- (a) no director or executive officer of our Corporation is, as at the date hereof or has been, within the 10 years before the date hereof, a director, chief executive officer or chief financial officer of any company, that,
  - (i) was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days (an "Order") that was issued while the director or executive officer was acting in its capacity as director, chief executive officer or chief financial officer; or
  - (ii) was subject to an Order that was issued, after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.
- (b) no director or executive officer of our company, or shareholder holding a sufficient number of securities of our company to affect materially the control of our Corporation:
  - (i) is, at the date hereof, or has been, within the 10 years before the date hereof, a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets;
  - (ii) has, within 10 years before the date of the AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or became subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

St-Geneviève Resources Ltd. ("SGV"), a public company for which Mr. Marleau was a director from 1996 to November 27, 1997, was subject to a cease trade order from the Commission des valeurs mobilières du Québec ("CVMQ" now the Autorité des marchés financiers du Québec) on November 28, 1997, due to SGV's financial situation. The order was lifted on December 22, 1997. SGV was also subject to a cease trade order from the Toronto Stock Exchange on December 5, 1997, for failure to meet continued listing requirements, on the basis of the SGV's financial condition, operating results and resignations of board members. SGV's common shares were delisted from the Toronto Stock Exchange on December 7, 1998. SGV presented to the Superior Court on November 27, 1997, a *Motion Requesting an Order for the Convening of a Meeting of Creditors and Other Conclusions in Accordance with the Companies' Creditors Arrangements Act* (the "Motion"). SGV was allowed to file a formal plan of compromise or arrangement to its creditors by January 23, 1998, which plan was subsequently amended and restated and approved by the creditors.

In August 2003, Mr. Marleau sought registration as a Financial Advisor with the CVMQ, and duly filed an application for said purpose at that time. On November 18, 2003, Mr. Marleau and Gestion Palos Inc. undertook with the CVMQ to cease acting as dealers or advisors until such time as Gestion Palos Inc. was registered with the CVMQ as an advisor. Such registrations were granted by the CVMQ on December 15, 2003.

Mr. Laferrière was director of GlobeeCom International Inc., a corporation that on March 22, 2006, announced an important restructuring of its operations and that estimated that, it did not dispose of sufficient liquidities, as of such date, in order to assure the continuity of its operations beyond the month of April 2006, and which, on May 1, 2006, announced that it will make a proposal to its creditors under the Bankruptcy and Insolvency Act in connection with a proposed reverse take over. On September 20, 2006, GlobeeCom International Inc. announced that the proposal to its creditors has been ratified by the court. Shares of that corporation are not traded since April 27, 2006. Mr. Laferrière was director of this corporation during the period of one year preceding its proposal.

Mr. Lacasse was a Director of Chromos Molecular Systems Inc. which was subject to a cease trade order from April 11, 2007 until July 22, 2008, as a result of the corporation submitting a Notice of Intention to make a proposal to its creditors under the Bankruptcy and Insolvency Act.

Dr. Gagné was director of GlobeeCom International Inc., a corporation that on March 22, 2006, announced an important restructuring of its operations and that estimated that, it did not dispose of sufficient liquidities, as of such date, in order to assure the continuity of its operations beyond the month of April 2006, and which, on May 1, 2006, announced that it will make a proposal to its creditors under the Bankruptcy and Insolvency Act in connection with a proposed reverse take over. On September 20, 2006, GlobeeCom International Inc. announced that the proposal to its creditors has been ratified by the court. Shares of that corporation are not traded since April 27, 2006. Dr. Gagné was director of this corporation during the period of one year preceding its proposal.

Mr. Busgang and Dr. Gagné were respectively Chairman of the Board and Director of Mistral Pharma Inc., which made a proposal to its creditors on June 13, 2008, under the Bankruptcy and Insolvency Act (BIA). The proposal included a reorganization of Mistral Pharma consisting in (i) the cancellation and annulment of all the existing shares and all the existing options and warrants of Mistral Pharma for all purposes, and (ii) the creation of a new class of common shares. On September 4, 2008, Mistral Pharma obtained creditor approval of its proposal. A final order of the Quebec Superior Court of Justice under the BIA was obtained on September 15, 2008. The common shares of Mistral Pharma were de-listed from the TSX Venture Exchange at the close of business on September 30, 2008. Mr. Busgang was Chairman and Dr. Gagné was director of this corporation during the period of one year preceding its proposal.

## 9. LEGAL PROCEEDINGS

The Corporation is not involved in any legal proceeding.

## 10. CONFLICTS OF INTEREST AND INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Conflicts of interest may arise as a result of the directors and officers of the Corporation also holding positions as directors and/or officers of other companies. Some of the directors and

officers have been and will continue to be engaged in the identification and evaluation of assets and businesses, with a view to potential acquisition of interests in businesses and companies on their own behalf and on behalf of other companies, and situations may arise where the directors and officers will be in direct competition with the Corporation. Reference is made to Item E of the Management Proxy Circular of the Corporation dated March 10, 2009, entitled "Interest of Insiders in Material Transactions" for a description of transactions involving the Corporation and directors and officers.

## 11. TRANSFER AGENTS AND REGISTRARS

The transfer agent and registrar for the shares of the Corporation is Computershare Trust Company of Canada, at its principal offices in Montreal and Toronto.

## 12. MATERIAL CONTRACTS

On July 10, 2002, Busgang Investments Inc. (formerly Samaloy Holding Inc.), a company controlled by Mark Busgang, President and Chief Executive Officer of the Corporation, and SGF Soquia Inc. have entered into a shareholder's agreement in which the Corporation intervened. This shareholder's agreement was filed by the Corporation on SEDAR on March 29, 2005 and may be consulted at [www.sedar.com](http://www.sedar.com).

## 13. INTERESTS OF EXPERTS

Nexia Friedman, the external auditor of the Corporation, reported on the fiscal 2008 audited consolidated financial statements of the Corporation, which were filed with the securities regulatory authorities. We are advised that, as at the date hereof, the members of Nexia Friedman are independent in accordance with the Code of Ethics of Chartered Accountants of Québec.

## 14. AUDIT COMMITTEE INFORMATION

The text of the Corporation's Audit Committee Charter is reproduced as Schedule A of this Annual Information Form.

### **COMPOSITION OF THE AUDIT COMMITTEE**

The Audit Committee is formed of four directors, Mr. Louis Lacasse, Chairman of the Committee, Mr. Hubert Marleau, Mr. Eric Veilleux and Mr. Gilles Gagnon. All members are independent and financially literate as required by National Instrument 52-110.

### **RELEVANT EDUCATION AND EXPERIENCE**

The following describes the relevant education and experience of each member of the Audit Committee that provides him or her with (a) an understanding of the accounting principles used by the Corporation to prepare its financial statements, (b) the ability to assess the general application of such accounting principles, (c) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to those that can reasonably be expected to be raised by the Corporation's financial statements or experience actively supervising one or more persons engaged in such activities and (d) an understanding of internal controls and procedures for financial reporting.

**Louis Lacasse** – Mr. Lacasse holds a Bachelor in Business Administration with a specialization in finance and an MBA with a specialization in accounting and marketing. Since 1997, he has been President of GeneChem Management Inc., a company that manages venture capital funds that invest in private and public life sciences companies in North America and Europe. Previously, he worked for 10 years at the Caisse de Dépôt et Placement du Québec, making many investments in companies in the information technology, telecommunications and health sectors. In his duties as an investor, Mr. Lacasse had to regularly review and analyse financial statements and perform due diligence reviews relative to internal processes and controls of the companies in his portfolio. Mr. Lacasse presides on the Audit Committees of three companies which are publicly traded in the United States and in Canada. Mr. Lacasse's experience required and contributed to the development of his ability to analyze financial statements and understand GAAP.

**Hubert Marleau** – Mr. Marleau is President of Palos Capital Corporation (since May 1998). Prior to this, Mr. Marleau was Chief Executive Officer and Chairman of the Board of Marleau Lemire, Executive Vice-President of Lévesque Beaubien and Senior Vice-President of Nesbitt Thompson. Mr. Marleau serves on the Board of Directors and Audit Committees of several public and private companies. Mr. Marleau's experience required and contributed to the development of his ability to analyze financial statements and understand GAAP.

**Eric Veilleux** – Mr. Veilleux holds a Bachelor in Business Administration and is a Chartered Accountant. He has been the Senior Director, Investment Support, for the SGF since 2001. Prior to joining the SGF, he was an advisor for Raymond Chabot Grant Thornton, from 1998 to 2001, and a director at KPMG from 1992 to 1998. Mr. Veilleux's experience required and contributed to the development of his ability to analyze financial statements and understand GAAP.

**Gilles Gagnon** – Mr. Gagnon has been CEO of Aetrena Zentaris where he has been responsible for all aspects of this company's business and financial operations. In addition, Mr. Gagnon has held several senior executive positions, including VP External Affairs at Novartis Pharmaceuticals, and Executive Director, Corporate Planning and Administration at Sandoz Canada, Inc. Mr. Gagnon's experience required and contributed to the development of his ability to analyze financial statements and understand GAAP.

#### **POLICY REGARDING NON-AUDIT SERVICE RENDERED BY AUDITORS**

The Charter of the Audit Committee requires the Audit Committee to pre-approve all non-audit services to be provided by the external auditors of the Corporation or its subsidiaries. The terms of such policy are more fully set out in the text of the Charter, reproduced as Schedule A of this Annual Information Form.

## **REMUNERATION OF AUDITORS**

The following table presents, by category, the fees billed by the external auditors of the Corporation, Nexia Friedman, for fiscal years 2007 and 2008:

<b>Category of fees</b>	<b>2008 \$</b>	<b>2007 \$</b>
Audit Fees <sup>(1)</sup>	102,000	113,000
Audit-Related Fees <sup>(2)</sup>	19,240	19,185
Tax Fees <sup>(3)</sup>	-	9,165
All Other Fees <sup>(4)</sup>	-	3,795
<b>Total</b>	<b>121,240</b>	<b>145,145</b>

<sup>(1)</sup> Professional services provided in connection with statutory and regulatory filings and audit of the annual financial statements of the Corporation.

<sup>(2)</sup> Professional services provided in connection with the quarterly review of the financial statements as well as consultations on accounting and regulatory matters.

<sup>(3)</sup> Professional services mainly for tax compliance.

<sup>(4)</sup> Various other services.

## 15. ADDITIONAL INFORMATION

At any time, the Corporation, upon request to the Corporate Secretary of the Corporation, will provide to any person or corporation, (i) one copy of the Annual Information Form of the Corporation, together with one copy of any document or the pertinent pages of any document incorporated by reference in the Annual Information Form, (ii) one copy of the comparative financial statements of the Corporation for its most recently completed financial year for which financial statements have been filed, together with the accompanying report of the auditor and one copy of the most recent interim financial statements of the Corporation that have been filed, if any, for any period after the end of its most recently completed financial year and (iii) one copy of the Management Proxy Circular of the Corporation in respect of its most recent annual meeting of shareholders that involved the election of Directors or one copy of any annual filing prepared instead of that circular, as appropriate, provided that the Corporation may require the payment of a reasonable charge if the request is made by a person or a company who is not a shareholder of the Corporation. The public documents of the Corporation can also be accessed via Internet on the SEDAR site at [www.sedar.com](http://www.sedar.com).

Additional information, including Directors' and Officers' remuneration and indebtedness, principal holders of the Corporation's securities, options to purchase securities and interests of insiders in material transactions, if applicable, is contained in the Corporation's Management Proxy Circular for its most recent annual meeting of shareholders that involved the election of Directors. Additional financial information is provided in the Corporation's comparative financial statements for its most recently completed financial year.

## **SCHEDULE A**

### **AUDIT COMMITTEE'S CHARTER**

#### **ELECTION**

The Audit Committee shall be composed of a minimum of three (3) outside directors, all of whom shall be "unrelated directors", appointed by the Board of Directors and who shall exercise their duties until the next annual general meeting of shareholders or until their successors have been chosen and appointed.

#### **VACANCIES**

In the event of a vacancy in the committee, the Board of Directors may appoint a new member to fill the vacancy of the committee.

#### **MEETINGS**

The meetings of the committee may be held at the head office of the Corporation or at such other place that the committee may determine from time to time. Meetings of the committee may be held at all times on the call of any member of the committee. At the request of the President & Chief Executive Officer or the Chairman of the Board, the Chairman of the committee shall hold a meeting of the committee to address any question that, in the opinion of the President & Chief Executive Officer or the Chairman of the Board, should be put to the attention of the committee.

#### **CHAIRPERSON**

The Audit Committee shall appoint a chairperson who shall be responsible for preparing an agenda and reporting to the Board of Directors at the next meeting of the Board of Directors or earlier, if required under the circumstances.

#### **QUORUM**

The quorum for the committee shall be a simple majority of the members.

#### **PROCEDURES**

The procedures for the committee shall be similar to those followed by the Board of Directors. The minutes of the meetings of the committee shall be kept in a minute book and made available for review by the directors of the Corporation.

#### **MANDATE**

The committees shall exercise all the rights and prerogatives granted to them by the Board of Directors. They shall report to the Board of Directors without interference from management or shareholders. They may call upon outside legal counsel or accountants or any other expert required to complete a specific mandate or where there is a suspicion of wrongdoing and arrange the compensation to be paid to such consultant. Any single committee member shall be empowered to call a special meeting of the Board of Directors in the event of any wrongdoing, whether factual or perceived.

### REMUNERATION

The members of the committee shall be remunerated for their services as determined by the Board of Directors.

### CHARTER & ORGANIZATION

The committee shall be appointed by the Board of Directors and shall comprise at least three directors, each of whom is independent of management and the Corporation. Members of the committee shall be considered independent if they have no relationship that may interfere with the exercise of their independence from management and the Corporation. All committee members shall be financially literate and at least one member shall have accounting or related financial management expertise. Financial literacy can be defined as the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the issuer's financial statements.

### STATEMENT OF POLICY

The Audit Committee shall provide assistance to the Board of Directors in fulfilling its oversight responsibility to the shareholders, potential shareholders, the investment community, and others relating to the Corporation's financial statements and the financial reporting process, the systems of internal accounting and financial controls, the internal control systems and the annual independent audit of the Corporation's financial statements. In so doing, it is the responsibility of the committee to maintain free and open communication between the committee, the independent auditors, and management of the Corporation. In discharging its oversight role, the committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the Corporation, and the power to retain outside counsel, or other experts for this purpose.

### RESPONSIBILITIES AND PROCESSES

The primary responsibility of the Audit Committee is to oversee the Corporation's financial reporting process on behalf of the Board and report the results of their activities to the Board. Management is responsible for preparing the Corporation's financial statements, and the independent auditors are responsible for auditing those financial statements. The Committee, in carrying out its responsibilities, believes its policies and procedures should remain flexible in order to best react to changing conditions and circumstances. The committee should take the appropriate actions to set the overall corporate "tone" for quality financial reporting, sound business risk practices, and ethical behaviour.

The following shall be the principal recurring processes of the Audit Committee in carrying out its oversight responsibilities. The processes are set forth as a guide with the understanding that the committee may supplement them as appropriate.

- The committee must be directly responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation, including the resolution of disagreements between Management and the external auditor regarding financial reporting. The committee shall have a clear understanding with management and the independent auditors that the independent auditors are ultimately accountable to the Board and the Audit Committee, as representatives of the Corporation's shareholders. The committee shall have the ultimate authority and responsibility to evaluate and, where

appropriate, recommend the replacement of the independent auditors. The committee shall discuss with the auditors their independence from management and the Corporation and the matters included in the written disclosures. The committee must also review and approve the issuer's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the issuer. Annually, the committee shall review and recommend to the Board the selection of the Corporation's independent auditors, subject to shareholders' approval, as well as the compensation to be paid to such auditors.

- The committee shall discuss with the independent auditors the overall scope and plans for their audit including the adequacy of staffing and compensation. Also, the committee shall discuss with management, and the independent auditors, the adequacy and effectiveness of the accounting and financial controls, including the Corporation's system to monitor and manage business risk, and legal and ethical compliance programs. Further, the committee shall meet separately with the independent auditors, with and without management present, to discuss the results of their examinations.
- The committee must review the issuer's financial statements, MD&A and annual and interim earnings press releases before the Corporation publicly discloses this information and must be satisfied that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the issuer's financial statements, other than the public disclosure hereinbefore mentioned, and must periodically assess the adequacy of those procedures. Also, the committee shall discuss the results of the quarterly review and any other matters required to be communicated to the committee by the independent auditors under generally accepted auditing standards. The Chair of the committee may represent the entire committee for the purposes of this latter review.
- The committee shall review with management and the independent auditors the financial statements to be included in the Corporation's Annual Report, including their judgment about the quality, not just acceptability, of accounting principles, the reasonableness of significant judgments, and the clarity of the disclosures in the financial statements. The committee shall discuss the results of the annual audit and any other matters required to be communicated to the committee by the independent auditors under generally accepted auditing standards.
- The committee shall review every year the insurance program of the Corporation.
- The committee must establish procedures for (a) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and (b) the confidential, anonymous submission by employees of the issuer of concerns regarding questionable accounting or auditing matters.
- The committee must pre-approve all non-audit services to be provided to the Corporation or its subsidiary entities by the Corporation's external auditor. The Audit Committee satisfies the pre-approval requirement if:
  - (a) the aggregate amount of all the non-audit services that were not pre-approved is reasonably expected to constitute no more than five per cent of the total amount of fees paid by the Corporation and its subsidiary entities to the Corporation's external auditor during the fiscal year in which the services are provided;

- (b) the Corporation or its subsidiary entities, as the case may be, did not recognize the services as non-audit services at the time of the engagement; and
- (c) the services are promptly brought to the attention of the Audit Committee of the Corporation and approved, prior to the completion of the audit, by the Audit Committee or by one or more of its members to whom authority to grant such approvals has been delegated by the Audit Committee.

The Audit Committee may delegate to one or more independent members the authority to pre-approve non-audit services. The pre-approval of non-audit services by any member to whom authority has been delegated must be presented to the Audit Committee at its first scheduled meeting following such pre-approval.

## **SCHEDULE B**

### **MANDATE OF THE BOARD OF DIRECTORS**

The regulations for managing a corporation have a certain flexibility thus permitting those concerned to share the responsibility of operations between the Board of Directors and management, according to circumstances and particular need.

The Board fulfills certain functions prescribed by law and is called upon to examine important situations facing the Corporation. The questions presented to the Board usually come from recommendations made by management.

In performing its duties, the Board must always keep in mind that, at the same time as being responsible for increasing the value of the shareholders' investment, as well it must protect the value of that investment against any serious depreciation.

The following items are the responsibility of the Board:

- The strategic orientation of the Corporation together with its mission and its objectives.
- The identification of the principal risks of the Corporation's business and the implementation of appropriate systems to manage these risks.
- The Corporation's business plan along with the operating budget, the capital budget and the cash flow budget.
- The financial statements, the raising of capital, loans and other important financial activities.
- The performance, commitment, remuneration, and evaluation of senior management as well as planning for management succession.
- Questions pertaining to the value of the business, to the products and services offered by the Corporation, and to the allocation of resources to new areas of activity.
- Reorganizations and restructuring of the Corporation, acquisitions and divestitures.
- The establishment of a communication or disclosure policy.
- The adoption of measures for receiving feedback from shareholders.
- The integrity of the Corporation's internal control and management information systems.
- The implementation of a process to be carried out by the Corporate Governance Committee for assessing the effectiveness of the Board as a whole, the committees of the Board and the contribution of individual directors.
- The development of position descriptions for the Board and for the CEO, including the definition of the limits to management responsibilities and the development or approval of the corporate objectives for which the CEO is responsible.

In order to perform its duties, the Board of Directors must not only know and approve the general orientation and plans of the Corporation, but also it needs to ensure that the approved plans are followed through as approved and that proper follow up and control systems are in place to ensure responsible management of the affairs of the Corporation.

The Board of Directors does this by examining, studying and approving, among other things, the strategic plan and the business plans as well as the budgets and also by getting the opinion of management and other internal experts and if needed, from external experts as well.

The implementation of appropriate verification procedures is important, even in the absence of problems, because these procedures allow the Board to feel secure that operations and other activities of management are being run properly, as the Board cannot realistically supervise daily activities.

Reports from the Chief Executive Officer and the Chief Financial Officer, as well as from the internal and external experts, are presented to the Board.

These procedures are not only an efficient and necessary process but also can be of assistance to the directors to defend their position should they be faced with a challenge from shareholders or third parties.

The input of the directors is valuable in that it gives management other perspectives.

The directors should take note that they have the same legal responsibilities and obligations, independently of whether the Corporation has a small or large number of shareholders.

Ultimately, the Chairman of the Board evaluates the efficiency of the Board. The Chief Executive Officer is responsible for the general direction and management of the Corporation.

A majority of the directors of the Corporation shall be “unrelated” as defined by the listing guidelines of the Toronto Stock Exchange. The Board shall review and affirmatively determine the “unrelated” status of each director.

An “unrelated director” is a director who has no direct or indirect relationship with the Corporation which could reasonably interfere with the exercise of this director’s independent judgement.

In order to assure the independence of the Board from management, the Board shall, at regular intervals, either during a regular meeting or at a special meeting called for that purpose, require that all related directors absent themselves from the meeting. The Board may, at its sole discretion, invite related directors or other members of senior management to participate in these meetings.

Each director shall have career experience relevant to the Corporation’s business, have proven understanding of fiduciary duty and demonstrate integrity and high ethical standards. Each director shall devote adequate time to serve effectively as a director. Attendance at the meetings of the Board is crucial.

An individual director of the Corporation may engage outside advisers at the expense of the Corporation, with the prior approval of the Corporate Governance Committee.