

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.



WARNEX
Third Quarter 2011

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 September 30, 2011, and the related notes appearing elsewhere in this document. This discussion and analysis compares the performance for the third quarter of 2011 with that of 2010 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. Information contained herein includes any significant developments as at November 14, 2011, the date on which the MD&A was approved by the Company's Board of Directors.

The enclosed financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB). The Company transitioned to IFRS on January 1, 2011. Please refer to Notes 2, 3 and 4 of the Company's 2011 Unaudited Interim Consolidated Financial Statements for a detailed discussion regarding significant accounting policies and the impact of the transition to IFRS. 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, liquidity risk, key customers and business partners, credit risk, foreign currency risk, government regulations, laboratory facilities, volatility of share price, employees, suppliers, 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 Analytical Services provides pharmaceutical and biotechnology companies with a variety of quality control services, including chemistry, chromatography, microbiology, method development and validation, and stability studies. Warnex Bioanalytical Services specializes in bioequivalence and bioavailability studies for clinical trials. Warnex Medical Laboratories provides specialized testing for the healthcare industry as well as pharmaceutical and central laboratory services. Warnex PRO-DNA Services offers DNA identification tests for paternity, maternity and other family relationships, as well as for immigration and forensic testing purposes. Warnex has three facilities located in Laval and Blainville, Quebec, and Thunder Bay, Ontario. The Company's common stock is traded on the Toronto Stock Exchange, under the symbol WNX.

In June 2009, the Company acquired the shares of Molecular World Inc. and subsequently changed its name to Warnex PRO-DNA Services Inc. The operations of this subsidiary are included in the Medical Laboratories division.

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 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 as part of clinical trials.
Medical Laboratories	Provides specialized laboratory testing services to the healthcare and pharmaceutical sectors, including the Prenatest [®] prenatal screening test. This division also offers genetic testing, pharmacogenetic services and human DNA identification including forensic DNA testing.

Corporate Highlights

Operating Highlights

- Restructured its outstanding debentures, which included extending the maturity dates and modifying various other terms of the debentures. Among the various amendments, the maturity dates for all debentures were extended to November 8, 2011, and interest owing pursuant to the debentures as of June 30, 2011, was deferred and payable in cash on August 1, 2011. As of November 14, 2011, the interest has not been paid yet. Consequently, the Company is in default under the terms of the debentures. Interest owing pursuant to the debentures following June 30, 2011, will be accrued and added to the principal amount thereof.
- Reorganized the operations of its subsidiary, Warnex Analytical Services Inc., including the shutdown of its analytical laboratories located in Laval, Quebec, and consolidation all of its analytical services at its Neopharm Laboratories facility located in Blainville, Quebec. This restructuring was completed in September 2011.
- Obtained funding from the federal government for forensic mitochondrial DNA testing. Warnex's PRO-DNA Services division, located in Thunder Bay, Ontario, signed a Contribution Agreement with the National Research Council of Canada's Industrial Research Assistance Program (NRC-IRAP), to develop a pre-screening method for forensic mitochondrial DNA testing. In addition to technical and business advisory services, NRC-IRAP will contribute up to \$49,200 for the research and development work performed by Warnex.
- Launched PRO-DNA[®] Lead, a new forensic DNA testing service. Warnex PRO-DNA Services signed an exclusive agreement with Sorenson Forensics, a forensic DNA testing company based in Salt Lake City, Utah, to offer this new service in Canada. PRO-DNA[®] Lead can provide valuable information to help further investigations, particularly in cases that have had no hits in CODIS (Combined DNA Index System).
- Received DEQAS certification for vitamin D analysis. Warnex's Bioanalytical Services division participated in the international External Quality Assessment Scheme (DEQAS) and has received certification from DEQAS for the analysis of vitamin D (25-hydroxyvitamin D). Warnex uses high performance liquid chromatography (HPLC) combined with mass spectrometry (MS/MS) to measure 25-hydroxyvitamin D2 and D3 in human blood plasma.

- Launched new website: www.pca3.ca. Warnex's Medical Laboratories division launched a new website for its PCA3 test for prostate cancer detection, available throughout Canada. Warnex's PCA3 test is a simple, non invasive test performed on a urine sample that informs a patient on their risk of having prostate cancer.

Events After the Balance Sheet Date

- Subsequent to the quarter, Warnex's Medical Laboratories division signed an exclusive agreement with deCODE Genetics, a leader in the field of human genetics, based in Reykjavik, Iceland, to distribute in Canada 10 of deCODE Genetics' DNA-based tests for assessing the risk of developing certain common diseases.
- Subsequent to the quarter, the Company announced that it is currently in advanced negotiations to extend the maturity dates of all of its outstanding convertible debentures that have become due, to modify other terms and conditions of the debentures and to obtain additional financing to cover current operating expenses as well as certain disbursements. The Company is not in a financial position to pay the principal and interest due on the debentures, all of which matured on November 8, 2011. The Company is also negotiating with Persistence Capital Partners ("PCP"), the Company's largest shareholder and one of the debenture holders, to obtain additional financing, as well as to modify various terms, and waive certain provisions, of an existing credit support agreement pursuant to which PCP guarantees Warnex's obligations under its existing banking facilities.

Balance Sheet

- Total assets of \$13.1 million and shareholders' equity of \$1.0 million
- \$0.1 million invested in property, plant and equipment
- Cash and cash equivalents of \$227,853
- \$1.1 million draw down from the \$1.25 million short-term bank financing facility

Statement of Operations and Comprehensive Income (Loss)

- Revenue of \$5.0 million in 2011 compared to \$5.5 million in 2010. For the nine-month period ended September 30, 2011, revenue was \$15.6 million (\$17.0 million in 2010).
- Net loss of \$0.7 million compared to \$28,436 in 2010. For the nine-month period ended September 30, 2011, net loss totalled \$1.6 million (net loss of \$0.9 million in 2010).
- Net loss of \$0.01 per share (net loss of \$0.00 per share in 2010). For the nine-month period ended September 30, 2011, net loss totalled \$0.02 per share (net loss of \$0.01 per share in 2010).
- Earnings before interest, taxes, depreciation and amortization (EBITDA), as defined in the financial performance section of this report, of \$0.3 million (\$0.6 million in 2010). For the nine-month period ended September 30, 2011, EBITDA amounted to \$0.5 million (\$1.1 million in 2010).

Management Objectives

Our goal is to improve value for our shareholders by building a strong suite of profit-generating pharmaceutical and medical laboratory services. Below are our objectives for 2011.

2011 Objectives

- Finalize the restructuring of our long-term debentures and strengthening our balance sheet
- Attain profitability by increasing revenues, managing costs and improving productivity
- Increase business development effort in all divisions to increase revenue and expand our geographic markets

- Evaluate new business opportunities, including strategic acquisitions, to expand our service offering and increase critical mass of laboratory services

Financial Performance

Results of Operations for the Three Months Ending September 30, 2011, Compared to the Three Months Ending September 30, 2010

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

	Revenue			Net earnings (net loss)		
	Q3 2011 \$	Q3 2010 ¹ \$	Variance \$	Q3 2011 \$	Q3 2010 ¹ \$	Variance \$
Analytical	1,944,467	2,610,859	(666,392)	(397,479)	227,279	(624,758)
Bioanalytical	1,769,734	1,562,157	207,577	567,142	335,795	231,347
Medical	1,208,449	1,303,094	(94,645)	220,912	280,593	(59,681)
Management services	55,959	62,012	(6,053)	(1,111,330)	(872,103)	(239,227)
Total	4,978,609	5,538,122	(559,513)	(720,755)	28,436	(692,319)

¹Amounts restated under IFRS.

For the three-month period ended September 30, 2011, revenue amounted to \$4,978,609 (\$5,538,122 in 2010), a decrease of 10% compared to last year. The Bioanalytical division generated revenue growth of 13% while the Analytical and Medical divisions had revenue decreases of 26% and 7%, respectively, compared to last year.

The Analytical division's revenues decreased by 26% from \$2.6 million in 2010 to \$1.9 million in 2011. This decrease is mainly due to a decrease in volume from major customers during the quarter. The Company announced on July 15, 2011, that it would reorganize the operations of the Warnex Analytical Services Inc. subsidiary. As part of the restructuring, Warnex shut down the operations of its analytical laboratories located in Laval, and consolidated all of its analytical services at its Neopharm Laboratories facility located in Blainville. This reorganization reflects our strategy to continually improve efficiency and reduce costs in our operations. By moving all of the analytical operations under one roof, we expect to improve the efficiency of our operations and provide better service to our customers. This reorganization was completed in September 2011. The Company is working to increase its business development efforts in order to reverse the negative revenue trend and increase business from new and existing customers.

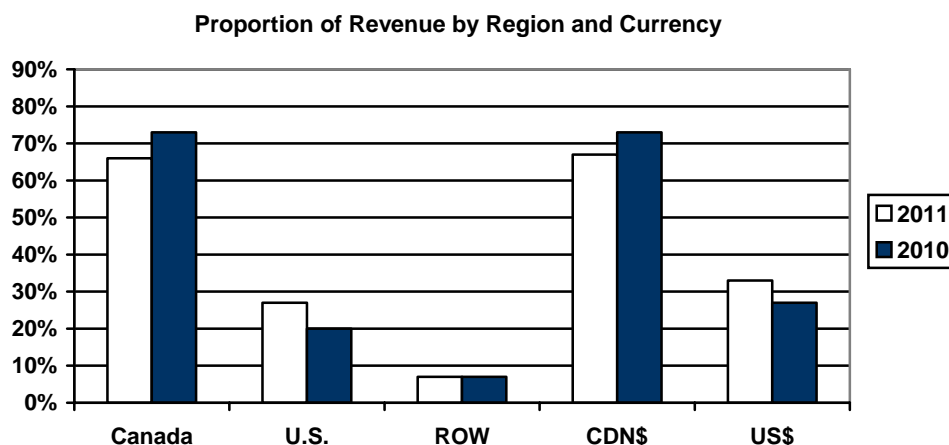
The Bioanalytical division's revenues increased by 13% from \$1.6 million in 2010 to \$1.8 million in 2011. This increase is mainly due to the execution of more complex projects with an average price per analysis higher than the same quarter last year. Our business development efforts in this division are ongoing to increase our business from new and existing customers.

The Medical division's revenue decreased by 7% from \$1.3 million in 2010 to \$1.2 million in 2011. Revenues from prenatal testing and pharmacogenetic contracts decreased by 2% and 33%, respectively, while revenues from molecular diagnostics and forensic testing increased by 36% and 20%, respectively, compared to last year.

For the nine-month period ended September 30, 2011, revenue reached \$15,557,992 (\$17,001,218 in 2010).

For the nine-month period, the proportion of revenues generated by Canadian customers decreased to 66% in 2011 from 73% in 2010. The proportion of revenues from U.S. customers increased to 27% in

2011 from 20% in 2010, and from other foreign customers remained stable at 7%. The proportion of total revenue generated in U.S. dollars was higher than last year, with 33% in 2011 versus 27% in 2010.



Gross margin for the three-month period ended September 30, 2011, amounted to \$1,163,101 or 23% of revenue (\$1,272,948 or 23% of revenue in 2010). Gross margin for the nine-month period ended September 30, 2011, amounted to \$3,572,890 or 23% of revenue compared to \$3,819,796 or 23% of revenue in 2010.

Selling, general and administrative, and financial expenses as well as research and development tax credits are summarized as follows:

	Q3 2011 \$	Q3 2010 ¹ \$	Variance \$
Selling	310,041	321,003	(10,962)
General and administrative	1,084,272	1,294,744	(210,472)
Financial	291,233	287,697	3,536
Research and development tax credits	(162,422)	(473,235)	310,813
Total	1,523,124	1,430,209	92,915

¹Amounts restated under IFRS.

Selling expenses amounted to \$310,041 for the three-month period ended September 30, 2011 (\$321,003 in 2010). The decrease is mainly explained by lower spending with a third party business development consultant during the period compared to last year. As a percentage of revenue, selling expenses were similar to last year at 6%. For the nine-month period ended September 30, 2011, selling expenses amounted to \$938,094 (\$950,513 in 2010). As a percentage of revenue, selling expenses were similar to last year at 6%.

General and administrative expenses amounted to \$1,084,272 for the three-month period ended September 30, 2011 (\$1,294,744 in 2010). The decrease of \$210,472 is mainly explained by a reduction in salary expenses. As a percentage of revenue, general and administrative expenses were lower than last year at 21% (23% in 2010). For the nine-month period ended September 30, 2011, general and administrative expenses amounted to \$3,557,265 (\$3,803,665 in 2010).

Financial expenses increased by \$3,536, from \$287,697 in the third quarter of 2010 to \$291,333 in the third quarter of 2011. For the nine-month period ended September 30, 2011, financial expenses amounted to \$864,916 (\$859,623 in 2010).

Research and development tax credits decreased by \$310,813, from \$473,235 in 2010 to \$162,422 in 2011. The decrease is mainly due to the 2008 and 2009 research and development claims that were assessed in 2010 in excess of the amounts previously accrued during 2010. For the nine-month period ended September 30, 2011, research and development tax credits amounted to \$411,422 (\$799,235 in 2010).

For the three-month period ended September 30, 2011, net loss amounted to \$720,755 or \$0.01 per share (net loss of \$28,436 or \$0.00 per share in 2010). For the nine-month period ended September 30, 2011, net loss totalled \$1,622,417 or \$0.02 per share (net loss of \$922,188 or \$0.01 per share in 2010).

For the three-month period ended September 30, 2011, the Company had earnings before interest, taxes, depreciation and amortization (EBITDA) of \$290,275 compared to \$571,411 in 2010, a decrease of \$281,136. For the nine-month period ended September 30, 2011, EBITDA amounted to \$530,497 (\$1,105,744 in 2010), a decrease of \$575,247. This decrease is mainly due to lower revenue and gross margin amounts in 2011 compared to 2010.

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

	Q3 2011	Q3 2010¹	Variance
	\$	\$	\$
Net earnings (loss)	(720,755)	(28,436)	(692,319)
Unrealized foreign exchange loss (gain) on debentures	360,732	(128,825)	489,557
Unrealized foreign exchange loss (gain) on working capital components	14,159	44,209	(30,050)
Interest revenue	(617)	(2,757)	2,140
Financial expenses	291,233	287,697	3,536
Depreciation and amortization	345,523	399,482	(53,959)
Share-based compensation	-	41	(41)
EBITDA	290,275	571,411	(281,136)

¹Amounts restated under IFRS.

The calculation for the nine-month period ended September 30, 2011, is as follows:

	2011	2010¹	Variance
	\$	\$	\$
Net loss	(1,622,417)	(922,188)	(700,729)
Unrealized foreign exchange loss (gain) on debentures	246,454	(72,582)	319,036
Unrealized foreign exchange loss (gain) on working capital components	16,962	28,132	(11,170)
Interest revenue	(4,554)	(5,728)	1,174
Financial expenses	864,916	859,623	5,293
Depreciation and amortization	1,029,136	1,187,234	(158,098)
Share-based compensation	-	31,253	(31,253)
EBITDA	530,497	1,105,744	(575,247)

¹Amounts restated under IFRS.

Balance Sheet

The balance sheet as at September 30, 2011, shows total assets of \$13.1 million (\$13.8 million in December 2010), negative working capital of \$7.4 million (negative working capital of \$6.7 million in December 2010), shareholders' equity of \$0.8 million (\$2.4 million in December 2010), cash and cash equivalent of \$228 thousand (\$244 thousand in December 2010) and a bank indebtedness of \$1.1 million (\$0.6 million in December 2010). In 2011, the Company also invested \$0.1 million in property, plant and equipment (\$0.1 million in December 2010) and \$18 thousand in computer software (\$65 thousand in December 2010).

Summary of Quarterly Results

The following tables provide selected quarterly information regarding the Statement of Operations:

	Revenue			Net earnings (loss)		
	2011	2010 ¹	2009 ²	2011	2010 ¹	2009 ²
	\$	\$	\$	\$	\$	\$
Q1	5,828,170	5,090,670	7,557,655	(67,814)	(896,424)	1,102,757
Q2	4,751,213	6,372,426	5,421,474	(833,848)	2,672	(346,660)
Q3	4,978,609	5,538,122	4,656,405	(720,755)	(28,436)	(782,797)
Q4		5,249,572	6,011,453		(813,586)	(137,548)
Total		22,250,790	23,646,987		(1,735,774)	(164,248)

¹Amounts restated under IFRS.

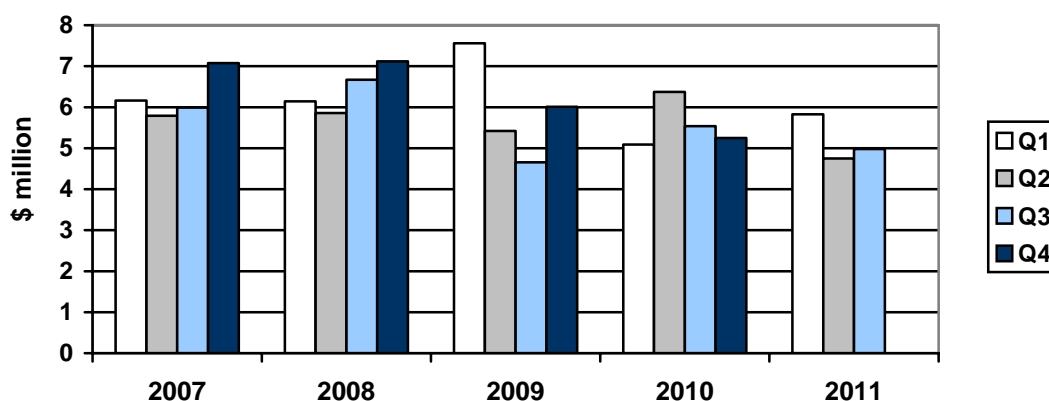
²Amounts prepared under Canadian GAAP and not restated to IFRS.

	Net earnings (loss) per share			Diluted net earnings (loss) per share		
	2011 \$	2010 ¹ \$	2009 ² \$	2011 \$	2010 ¹ \$	2009 ² \$
Q1	0.00	(0.01)	0.02	0.00	(0.01)	0.01
Q2	(0.01)	0.00	(0.01)	(0.01)	0.00	(0.01)
Q3	(0.01)	0.00	(0.01)	(0.01)	0.00	0.00
Q4		(0.01)	0.00		(0.01)	0.00
Total		(0.02)	0.00		(0.02)	0.00

¹Amounts restated under IFRS.

²Amounts prepared under Canadian GAAP and not restated to IFRS.

Revenue per quarter



Liquidity and Capital Resources

The commercial operations of Warnex's service divisions have been financed through their own internally generated cash flows, investment tax credits, the use of commercial banking facilities, debentures and capital leases with equipment vendors.

In May 2008, the Company extinguished its debt in the principal amount of \$11,345,000 with the existing debenture holders. The Company then entered into new agreements with the same lenders which included the following terms and conditions:

- 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;
- An aggregate of \$6,333,333 in principal to be paid in three years;
- Increase in 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 2008, the Company issued 12,343,316 common shares at \$0.15 each in connection with the conversion of debentures.

In June 2008, a non-secured convertible debenture holder converted \$15,000 into 100,000 common shares at a price of \$0.15 each.

In August and September 2009, a non-secured convertible debenture holder converted \$120,000 into 800,000 common shares at a price of \$0.15 each.

The Company entered into an agreement with Desjardins Group for financing and banking services as announced on May 6, 2008. As part of the agreement, Warnex received financing facilities totalling \$4 million, which include a revolving line of credit of \$2 million and term debt of \$2 million. In June 2009, the Company received a new term loan of \$350,000, which was used in the Molecular World Inc. acquisition.

In June 2009, The Company renewed its financing facility which remained unchanged except for the financial covenants.

In December 2010, the Company renewed its financing facility which remained unchanged except for the authorized operating line of credit amount. As of December 1, 2010, the authorized amount was reduced from \$2,000,000 to \$1,250,000 and on January 31, 2011, the authorized amount was changed to \$1,000,000.

In April 2011, the Company entered into a credit support agreement with Persistence Capital Partners ("Guarantor"), one of the debenture holders, to guarantee the Company's obligations with its current banker. This agreement allows for greater flexibility of its existing financing arrangements described in Note 10 of the financial statements. In addition, the Company's available operating line of credit was increased to \$1,250,000.

On June 28, 2011, Warnex announced that the holders of two of its outstanding debentures extended the maturity dates of their debentures. This extension was granted in the context of a broader negotiation by Warnex with its debenture holders for the restructuring of all of its outstanding debentures. As a result, the aggregate of approximately CDN\$6.1 million in outstanding debentures of Warnex all had maturity dates ranging from July 5, 2011, to July 9, 2011.

On July 6, 2011, the Company announced that it reached an agreement in principle with the holders of all of its outstanding debentures to extend the maturity date and modify various other terms of their debentures. Among the various amendments, the maturity dates for all debentures would be extended to November 8, 2011, any interest owing pursuant to the debentures as of June 30, 2011, would be deferred and expected to be paid in cash on August 1, 2011 and any interest owing pursuant to the debentures following June 30, 2011, would be accrued and added to the principal amount thereof. As of November 14, 2011, the interest has not been paid yet. Consequently, the Company is in default under the terms of the debentures.

On August 18, 2011, the Company announced that it reached an agreement with the holders of all of its outstanding debentures to extend the maturity dates and modify various other terms.

Pursuant to the agreement which has been reached with each of the debenture holders, the principal amendments made to the debentures are as follows:

- The maturity dates for all debentures were extended to November 8, 2011, with an option for a further extension to no later than December 13, 2011, upon the occurrence of certain events and the agreement of the parties;
- Any interest owing pursuant to the debentures as of June 30, 2011, was deferred and payable in cash on August 1, 2011. As of November 14, 2011, the interest has not yet been paid;
- Any interest owing pursuant to the debentures following June 30, 2011, is accrued and added to the principal amount thereof;

- At the option of the holder, (i) the principal amount of the debentures will be convertible into common shares of Warnex ("Common Shares") at the lower of \$0.06 or the market price of the Common Shares at the time of conversion and (ii) the accrued interest owing pursuant to the debentures will be convertible into Common Shares at the market price of the Common Shares at the time of conversion;
- The debentures are secured by a charge on all of the property and assets of Warnex and its subsidiaries.

As at September 30, 2011, the Company is not in compliance with the covenants contained in the credit support agreement.

As of November 8, 2011, the Company is in default under the terms of all of its outstanding debentures.

Subsequent to the quarter, the Company announced that it is currently in advanced negotiations to extend the maturity dates of all of its outstanding convertible debentures that have become due, to modify various other terms and conditions of the debentures and to obtain additional financing to cover current operating expenses as well as certain disbursements. The Company is not in a financial position to pay the principal and interest due on the debentures, all of which matured on November 8, 2011. The Company is also negotiating with Persistence Capital Partners ("PCP"), the Company's largest shareholder and one of the debenture holders, to obtain additional financing, as well as to modify various terms, and waive certain provisions, of an existing credit support agreement pursuant to which PCP guarantees Warnex's obligations under its existing banking facilities.

With the reorganization of our balance sheet, the Company intends to pursue its business plan and finance its planned growth through internally generated funds. If the growth is faster than anticipated or if the Company makes acquisitions, the Company 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, if necessary, solely in liquid, high-grade securities with varying maturity dates. As at September 30, 2011, the Company had \$228 thousand invested in cash (\$244 thousand in December 2010) and had used \$1.1 million of the line of credit (\$0.6 million in December 2010). 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⁾	93,366	-	-	-
Capital lease obligations	60,970	-	-	-
Operating leases ⁽²⁾	743,073	1,519,094	1,439,566	945,443
Purchase obligations	69,764	30,000	15,000	-
Convertible debentures ⁽³⁾	6,603,485	-	-	-
Total	7,570,658	1,549,094	1,454,566	945,443

Note 1: As of September 30, 2011, the Company did not meet the covenants contained in the agreement with its Guarantor.

Note 2: Operating leases of more than 5 years consist mainly of lease contracts for the buildings until 2018.

Note 3: The convertible debentures may be converted into Warnex common shares at or before their maturity.

Note 4: The Company does not engage in off-balance sheet arrangements.

Related Party Transactions

During the period, the following transactions occurred:

- i) The Company paid \$1,000 per month for a total of \$9,000 (\$9,000 in 2010), to the Company's Chairman of the Board for his work on specific mandates for the various operating divisions of the Company.
- ii) The Company incurred \$30,385 (\$nil in 2010), to an institutional shareholder for guarantee and standby fees related to the credit support agreement. In addition, the Company incurred a fee of \$40,000 to set up the guarantee.

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 Policies and Estimates

The Company's significant accounting policies under IFRS are described in Note 2 of the accompanying consolidated interim financial statements. The preparation of financial statements in conformity with IFRS requires management to make estimates and assumption that affect amounts reported in the consolidated financial statements and accompanying notes. The estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The Company's critical accounting estimates are described below.

Allowance for doubtful accounts

The Company makes assessments on whether accounts receivable are collectible from customers. Accordingly, management establishes an allowance for estimated losses arising from non-payment, taking into consideration customer creditworthiness, current economic trends and past experience. If future collections differ from estimates, future earnings are affected.

Investment tax credits receivable

Management has made a number of estimates and assumptions in determining the expenditures eligible for the investment tax credit claim. It is possible that the allowed amount of the investment tax credit claim could be materially different from the recorded amount upon assessment by the tax authorities.

Income taxes

For the recognition of deferred tax assets arising from the carryforward of unused tax losses, the Company estimates the taxable profit that will be available against which the unused tax losses can be utilized.

Deferred tax estimation

Deferred tax assets and liabilities recognition involves making a series of assumptions. For instance, the Company has to estimate the timing of the reversal of temporary differences or if it is probable that temporary differences will not reverse in the foreseeable future or the tax rates expected to apply to the period when the asset is realized or the liability is settled.

As far as deferred tax assets are concerned, their realization ultimately depends on taxable profits being available in the future. Deferred tax assets should be recognized when it is probable that taxable profits will be available against which the deferred tax asset can be utilized and it is probable that the Company will earn sufficient taxable profit in future periods to benefit from a reduction in tax payments. This involves the Company making assumptions within its overall tax-planning activities and periodically reassessing them in order to reflect changed circumstances as well as tax regulations. Moreover, the measurement of a deferred tax asset or liability should reflect the manner in which the entity expects to recover the asset's carrying value or settle the liability.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Critical judgments in applying accounting policies

The following are the critical judgments that the management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

Revenue Recognition

The Company uses the percentage of completion method in accounting for its analysis revenue from analytical and bioanalytical services and its project revenue from analytical and medical laboratory services. Use of the percentage of completion method requires management to estimate the services performed to date as a proportion of the total services to be performed.

Future Changes in Accounting Policies

Certain new standards, interpretations and amendments to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning after January 1, 2012.

IFRS 9 - Financial Instruments ("IFRS 9") was issued by the IASB on November 12, 2009 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 9 on its financial statements.

IFRS 7 - Financial Instruments: Disclosures ("IFRS 7") was issued by the IASB on October 7, 2010, and contains amendments to the existing IFRS 7. The amendments to IFRS 7 enhance disclosure requirements about transfers of financial assets. The amendments of IFRS 7 are effective for annual periods beginning on or after July 1, 2011. The Company is currently evaluating the impact of the amendments to IFRS 7 on its financial statements.

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that publicly accountable enterprises will be required to transition from Canadian GAAP to International Financial Reporting Standards ("IFRS") for interim and annual financial reporting purposes for fiscal years beginning on or after January 1, 2011, with comparative information. Starting with this quarterly report, we have provided unaudited interim consolidated financial statements in accordance with IFRS, including comparative figures for 2010. The Company transitioned to IFRS on January 1, 2011. Please refer to Notes 2, 3 and 4 of the Company's 2011 Unaudited Interim Consolidated Financial Statements for a detailed discussion regarding significant accounting policies and the impact of the transition to IFRS.

The transition to IFRS did not have significant business impacts, or require significant changes to its internal controls over financial reporting. The Company did not make significant modification to its information systems to accommodate the transition.

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 debentures.

The Company's objective when managing capital is also to maintain adequate financial flexibility in order to preserve its ability to meet financial obligations, including debt servicing payments. The Company is in the process of analyzing its cash flow needs and reviewing the alternatives between its current debenture structure, seeking new investors or other strategies.

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 has been primarily managed through the issuance of additional common shares, common share purchase warrants that upon exercise are converted to common shares, 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	67,117,191	67,117,191
Options issued	1,852,711	1,852,711
Share warrants ⁽¹⁾	2,000,000	2,000,000
Convertible debentures ⁽²⁾	\$1,500,000	58,871,229
U.S. convertible debentures ⁽²⁾	US\$4,206,341	129,799,771
Total		259,640,902

Note 1: 2,000,000 share warrants expire in October 2011.

Note 2: The conversion rate is at the lower of \$0.06 or a specific formula based on market price at the time of conversion.

On June 12, 2009, the Company issued 2,000,000 common shares of Warnex for the acquisition of Molecular World Inc.

On June 25, 2009, warrants for 392,746 shares expired.

On June 25, 2011, warrants for 1,570,983 shares expired.

On October 24, 2011, warrants for 2,000,000 shares expired.

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 September 30, 2011, 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, on the design and effectiveness of our disclosure controls and procedures as defined under National 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 September 30, 2011.

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 IFRS.

As of September 30, 2011, management evaluated the design and effectiveness of internal control over financial reporting as defined under National Instrument 52-109, and based on that evaluation determined that certain aspects of internal control over financial reporting were not designed nor operated effectively. The control deficiencies identified by the Company did not result in adjustments to our interim consolidated financial statements for 2011. 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 on automated controls mainly relating to the implementation of a new accounting system, as well as 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 Audit Committee. These procedures were performed during 2011.

- Information technology general controls

The Company did not adequately maintain effective control over ensuring that the backup tapes are periodically tested to verify their accuracy. In addition, there is no information technology strategic plan and business continuity plan and no periodic review performed on the security logs for failed logins. Also, the Company did not adequately maintain effective controls over program development and program changes. To mitigate the risk, the Company relies on its skilled information technology director and employees.

- Period-end financial reporting process

The Company did not maintain effective controls over ensuring that certain account balances requiring the use of accounting estimates are reviewed by a person other than the preparer. The Company consults with its external auditor when necessary.

- Income taxes

The Company did not maintain effective controls over the recording of income taxes payable and the income tax provision. The Company is currently relying on its external auditor to ensure correctness of the above mentioned items.

- Segregation of duties

The Company had deficient controls within its accounting, payroll, and finance department over segregation of duties inherent to its size. Specifically, as a result of the limited number of personnel in the accounting, payroll, 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 on automated controls mainly relating to the implementation of a new accounting system, as well as, 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 Audit Committee. These procedures were performed during 2011.

Remediation of material weaknesses in internal control over financial reporting

Subsequent to September 30, 2011, we have begun or plan to take the following actions to address the material weaknesses in internal controls over financial reporting identified as of September 30, 2011. 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.

- Entity level controls

We will continue to finalize and distribute procedure manuals which communicate management's and employees' roles and responsibilities.

- Information technology general controls

We will implement enhanced information technology policies and procedures specifically with regards to system's change management, program development, program changes, IT operations and related monitoring. We will develop and implement a global information technology strategic plan and a business continuity plan.

In the beginning of 2009, management administered the implementation of a new accounting system. This new system introduced automated controls into the accounting system process and replaced certain manual controls that management had to rely upon. This major step ensured more rigorous monitoring of controls over access to the accounting system.

- Period-end financial reporting process

We will continue to develop controls over the period-end financial reporting process where feasible. As the Company grows, we plan to expand the number of individuals involved in the financial close process and enhance the level of accounting knowledge. We added one additional temporary person in the accounting department in 2010 and maintained this position in 2011.

Since 2009, the new accounting system improved the period-end financial reporting process by replacing certain manual procedures with automated procedures. We introduced new controls such as, ensuring access to certain accounting spreadsheets was restricted to the appropriate personnel, implemented a disclosure checklist to ensure compliance with IFRS, and implemented a review process for the consolidation and complex journal entries by a person other than the preparer.

- Income taxes

We will continue to consult with our third party expert advisors on a regular basis for tax advice. As the Company grows, we will plan to expand the number of individuals involved in the accounting function and enhance the level of tax knowledge.

- Inadequate segregation of duties

We will continue to 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 where feasible. As the Company grows, we will expand the number of individuals involved in the accounting function. We added one additional temporary person in the accounting department in 2010 and maintained this position in 2011.

Management realizes 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 design 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 interim consolidated financial statements for 2011.

Other than the remediation efforts discussed above 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 2011 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 debentures mature in the current period. The Company's ability to continue as a going concern is dependent upon its ability to negotiate new terms with the debenture holders and to agree on amenable covenants regarding the banking facilities or to find alternative financing to repay debts maturing in 2011.

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.

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. The Company is currently seeking alternatives to refinance or repay the debentures.

Key Customers and Business Partners

Warnex Analytical's two most important customers accounted for 29% of sales for 2010 (37% in 2009). 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 four main customers accounted for 54% of this division's revenues for 2010 (3 customers for 53% in 2009) 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.

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. 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. Individual overdue accounts are reviewed and allowance adjustments are recorded when determined necessary to state receivables at the realizable value. If the financial conditions of customers deteriorate, resulting in their diminished ability or willingness to make payment, additional provisions for doubtful accounts are recorded. The Company's maximum credit risk exposure corresponds to the carrying amounts of the accounts receivable.

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.

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.

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.

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.

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.

Outlook

We expect to generate a positive EBITDA, as defined in the financial performance section, and expect to strengthen our balance sheet.

Signed for management, this 14th day of November 2011.



Mark Busgang
President & CEO



François Jetté, CA
Chief Financial Officer

Interim Consolidated Balance Sheets (Unaudited)

	September 30 2011 \$	December 31 2010 \$	January 1 2010 \$
Assets			
Current assets			
Cash and cash equivalents	227,853	244,456	894,031
Trade and other receivables (note 5)	3,345,666	3,478,299	3,593,390
Work-in-progress	459,326	328,289	531,142
Inventory (note 6)	419,162	355,132	177,027
Prepaid expenses	439,389	293,636	388,502
	4,891,396	4,699,812	5,584,092
Non-current assets			
Deferred income taxes (note 15)	1,221,000	1,221,000	1,221,000
Property, plant and equipment (note 7)	5,741,414	6,569,217	7,868,974
Intangibles (note 8)	351,490	407,185	382,145
Goodwill (note 9)	937,695	937,695	937,695
	13,142,995	13,834,909	15,993,906
Liabilities			
Current liabilities			
Bank loan (note 10)	1,080,000	580,000	-
Trade and other payables	3,309,956	2,899,115	3,008,594
Provisions (note 11)	110,853	-	-
Deferred revenue	1,074,005	921,532	411,599
Current portion of long-term debt (note 12)	153,470	894,716	1,800,372
Liability component of debentures (note 13)	6,603,485	6,100,181	-
	12,331,769	11,395,544	5,220,565
Long-term liabilities			
Long-term debt (note 12)	-	5,722	447,661
Liability component of debentures (note 13)	-	-	6,187,516
	12,331,769	11,401,266	11,855,742
Shareholders' equity			
Capital stock (note 14)	40,981,049	40,981,049	40,981,049
Other reserves	2,803,559	2,803,559	2,772,306
Deficit	(42,973,382)	(41,350,965)	(39,615,191)
	811,226	2,433,643	4,138,164
	13,142,995	13,834,909	15,993,906

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

Interim Consolidated Statements of Changes in Equity (Unaudited)

	Other reserves							Total \$
	Capital stock \$	Equity components of debentures \$	Share-based compensation \$	Other \$	Total other reserves \$	Deficit \$		
Balance, December 31, 2010	40,981,049	1,734,404	1,028,149	41,006	2,803,559	(41,350,965)	2,433,643	
Share-based compensation (note 14)	-	-	-	-	-	-	-	
Net and comprehensive loss	-	-	-	-	-	(1,622,417)	(1,622,417)	
Balance, September 30, 2011	40,981,049	1,734,404	1,028,149	41,006	2,803,559	(42,973,382)	811,226	
Balance, January 1, 2010	40,981,049	1,734,404	996,896	41,006	2,772,306	(39,615,191)	4,138,164	
Share-based compensation (note 14)	-	-	31,253	-	31,253	-	31,253	
Net and comprehensive loss	-	-	-	-	-	(922,188)	(922,188)	
Balance, September 30, 2010	40,981,049	1,734,404	1,028,149	41,006	2,803,559	(40,537,379)	(3,247,229)	

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

Interim Consolidated Statements of Operations and Comprehensive Income (Loss) (Unaudited)

	Three months ended September 30		Nine months ended September 30	
	2011 \$	2010 \$	2011 \$	2010 \$
Revenue	4,978,609	5,538,122	15,557,992	17,001,218
Cost of goods sold (note 19)	3,815,508	4,265,174	11,985,102	13,181,422
Gross margin	1,163,101	1,272,948	3,572,890	3,819,796
Operating expenses				
Selling (note 19)	310,041	321,003	938,094	950,513
General and administrative (note 19)	1,084,272	1,294,744	3,557,265	3,803,665
Finance (note 19)	291,233	287,697	864,916	859,623
Research and development tax credits	(162,422)	(473,235)	(411,422)	(799,235)
	1,523,124	1,430,209	4,948,853	4,814,566
Loss before under noted item and income taxes	(360,023)	(157,261)	(1,375,963)	(994,770)
Unrealized foreign exchange gain (loss) on debentures	(360,732)	128,825	(246,454)	72,582
Loss before income taxes	(720,755)	(28,436)	(1,622,417)	(922,188)
Income taxes (note 15)	-	-	-	-
Net loss and comprehensive loss	(720,755)	(28,436)	(1,622,417)	(922,188)
Basic loss per share (note 16)	(0.01)	(0.00)	(0.02)	(0.01)
Diluted loss per share (note 16)	0.00	0.00	(0.01)	(0.01)
Weighted average number of shares outstanding (note 16)	67,117,191	67,117,191	67,117,191	67,117,191
Weighted average number of diluted shares outstanding (note 16)	255,788,191	67,117,191	255,788,191	67,117,191

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

Interim Consolidated Statements of Cash Flow (Unaudited)

	Three months ended September 30		Nine months ended September 30	
	2011 \$	2010 \$	2011 \$	2010 \$
Operations				
Net loss	(720,755)	(28,436)	(1,622,417)	(922,188)
Items not affecting cash:				
Depreciation of property, plant and equipment	320,898	372,660	955,799	1,113,123
Amortization of intangibles	24,625	26,822	73,337	74,111
Accretion of interest on debentures	-	37,401	71,114	107,341
Capitalized interest on debentures	185,736	-	185,736	-
Unrealized foreign exchange loss (gain) on debentures	360,732	(128,825)	246,454	(72,582)
Share-based compensation	-	41	-	31,253
Foreign currency fluctuation	(35,384)	211,095	(31,142)	188,989
	135,852	490,758	(121,119)	520,047
Net change in non-cash working capital items (note 20)	241,156	(258,681)	491,380	(414,057)
Net cash provided by operations	377,008	232,077	370,261	105,990
Investing activities				
Acquisition of property, plant and equipment	(24,131)	(32,821)	(127,996)	(109,462)
Acquisition of intangibles	-	(10,708)	(17,642)	(113,642)
Net cash used in investing activities	(24,131)	(43,529)	(145,638)	(223,104)
Financing activities				
Increase (decrease) in bank loan	(60,000)	20,000	500,000	340,000
Repayment of long term debt	(115,569)	(347,611)	(746,968)	(1,016,716)
Net cash used in financing activities	(175,569)	(327,611)	(246,968)	(676,716)
Foreign exchange gain (loss) on cash held in foreign currencies	13,712	(65,352)	5,742	(55,342)
Increase (decrease) in cash and cash equivalents	191,020	(204,415)	(16,603)	(849,172)
Cash and cash equivalents, beginning of period	36,833	249,274	244,456	894,031
Cash and cash equivalents, end of period	227,853	44,859	227,853	44,859

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

Notes to Interim Consolidated Financial Statements (unaudited)

September 30, 2011 and 2010

1. General information and going concern

Warnex Inc. ("the Company") is incorporated under the laws of Canada. Warnex Inc. 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. The address of its registered office and principal place of business is 3885 Industriel Blvd., Laval, Quebec.

As at September 30, 2011, the Company has an accumulated deficit of \$42,973,382 and a negative current ratio. In addition, the Company did not meet its covenants included in its credit support agreement. 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 therefore dependent upon its ability to obtain financing arrangements.

These consolidated financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards ("IFRS"). The going concern basis assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on November 14, 2011.

2. Significant accounting policies

Statement of compliance

These consolidated financial statements of the Company have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies the Company expects to adopt in its consolidated financial statements as at and for the year ending December 31, 2011.

As these interim consolidated financial statements are the Company's first consolidated financial statements prepared using IFRS, certain disclosures that are required to be included in annual consolidated financial statements prepared in accordance with IFRS that were not included in the Company's most recent annual consolidated financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") have been included in these consolidated financial statements for the comparative annual period.

These interim consolidated financial statements should be read in conjunction with the Company's 2010 annual consolidated financial statements and in consideration of the IFRS transition disclosures included in note 4 to these consolidated financial statements and the additional annual disclosures included herein.

Basis of presentation

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below.

Notes to Interim Consolidated Financial Statements (unaudited)

September 30, 2011 and 2010

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its consolidated subsidiaries, which are the entities over which the Company has control. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefit from its activities.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Cash and cash equivalents

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

Inventory

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

Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Property, plant and equipment

Property, plant and equipment are recorded at cost, with the exception of lab equipment which is at fair value as deemed cost. Property, plant and equipment are depreciated over their estimated useful life or over the term of the lease as follows:

Declining-balance

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 terms of the leases

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Government financial assistance

Government financial assistance is not recognized until there is reasonable assurance that the Company will comply with the conditions attached to them and that the assistance will be received.

Government financial assistance whose primary condition is that the Company purchase non-current assets is recognized as a reduction in the carrying amount of the assets and transferred to the statement of operations on a systematic and rational basis over the useful lives of the related assets.

Research and development tax credits

Current research and development expenses are charged to earnings in the year they are incurred, net of related tax credits. These tax credits arise as a result of incurring qualified scientific research and development expenditures. The cost of property, plant and equipment is reduced by the amount related to the investment tax credits.

Investment tax credits

The Company claims investment tax credits as a result of incurring scientific research and experimental development expenditures. Investment tax credits are recognized when the related expenditures are incurred and there is reasonable assurance of their realization.

Notes to Interim Consolidated Financial Statements (unaudited)

September 30, 2011 and 2010

Intangibles

Computer software

Computer software is carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a declining balance method at a rate of 20%. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Other intangibles

Upon acquisition, identifiable intangible assets are recorded at fair value and are carried at cost less accumulated amortization and accumulated impairment losses.

Identifiable intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives as follows:

Licences	5 years
Customer lists	5 years

Amortization of finite life intangibles is included in general and administrative expenses.

Impairment of tangible and intangible assets, excluding goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of operations.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in the statement of operations.

Goodwill

Goodwill arising in a business combination is recognized as an asset at the date that control is acquired. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree, if any, over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill is not amortized but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Company's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying

Notes to Interim Consolidated Financial Statements (unaudited)

September 30, 2011 and 2010

amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Financial assets

Purchases and sales of financial assets are recognized on the settlement date, which is the date on which the asset is delivered to or by the Company. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or were transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets are classified into the following specified categories: financial assets 'at fair value through statement of operations', 'available-for-sale' financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through statement of income

Financial assets at fair value through statement of income are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management.

Financial assets carried at fair value through statement of income are initially recognized, and subsequently carried, at fair value, with changes recognized in the statement of operations. Transaction costs are expensed.

There are no financial assets classified into this category.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in other non-current financial assets unless management intends to dispose of the investment within twelve months of the end of the reporting period.

Investments are initially recognized at fair value plus transaction costs and are subsequently carried at fair value with changes recognized in other comprehensive income. Upon sale or impairment, the accumulated fair value adjustments recognized in other comprehensive income are included in the statement of operations.

There are no financial assets classified into this category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than twelve months after the end of the reporting period, which are classified as non-current assets. Assets in this category include "cash and cash equivalents" and "trade and other receivables" and are classified as current assets in the balance sheet.

Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method.

Impairment of financial assets

At the end of each reporting period, the Company assesses whether there is objective evidence that a financial asset is impaired. Impairments are measured as the excess of the carrying amount over the fair value and are recognized in the statement of operations.

Financial liabilities and equity instruments

Financial liabilities are classified as either financial liabilities 'at fair value through the statement of operations' or 'other financial liabilities'.

Notes to Interim Consolidated Financial Statements (unaudited)

September 30, 2011 and 2010

Financial liabilities at fair value through the statement of income

Financial liabilities at fair value through the statement of income are financial liabilities held for trading.

Financial liabilities carried at fair value through the statement of income are initially recognized, and subsequently carried, at fair value, with changes recognized in the statement of operations. Transaction costs are expensed.

There are no financial liabilities classified into this category.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period to the net carrying amount on initial recognition.

Liabilities in this category include "bank loan", "trade and other payables", "provisions", "long-term debt", and "liability component of debentures".

Compound instruments

The component parts of compound instruments issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured.

Transaction costs that relate to the issue of the convertible debentures are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the lives of the convertible debentures using the effective interest method.

The following summarizes the Company's classification and measurement of financial assets and liabilities:

	Classification	Measurement
Financial assets		
Cash and cash equivalents	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Financial liabilities		
Bank loan	Other liabilities	Amortized cost
Trade and other payables	Other liabilities	Amortized cost
Provisions	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost
Liability component of debentures	Other liabilities	Amortized cost

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Notes to Interim Consolidated Financial Statements (unaudited)

September 30, 2011 and 2010

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Analysis revenue from analytical and bioanalytical services is recorded using the percentage of completion method whereby revenue and profit are based on the ratio of costs incurred to total estimated costs of the project. Analysis revenue from medical laboratory services is recorded at the time the test is completed.

Project revenue from analytical and medical laboratory services is recorded using the percentage of completion method whereby revenue and profit are based on the ratio of costs incurred to total estimated costs of the projects.

Costs and estimated profits on contracts in progress in excess of amounts billed are reflected as work-in-progress. Cash received in advance of revenues being recognized on contracts is classified as deferred revenue.

The Company monitors its contracts with customers on a regular basis to determine whether a loss is likely to occur. When a loss is anticipated on a contract, the entire estimated loss is recorded as a reduction of revenue and work-in-progress in the period in which the loss becomes evident and reasonably estimable.

Finance and operating leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized as assets at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are segregated between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in the statement of operations. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign exchange

The consolidated financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency.

Foreign currency denominated monetary assets and liabilities of the Company are translated using the closing rate. Foreign currency denominated non-monetary assets and liabilities, measured at historic cost, are translated at the rate of exchange at the transaction date.

Revenues and expenses are measured at the rates of exchange in effect on the transaction date or at the average exchange rates for the period. Gains or losses on translation of these items are included in the statement operations.

Share-based compensation

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 14.

Notes to Interim Consolidated Financial Statements (unaudited)

September 30, 2011 and 2010

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in the statement of operations such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to other reserve.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of operations because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax liabilities:

- are generally recognized for all taxable temporary differences; and
- are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets:

- are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; and
- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Earnings (loss) per share

Earnings (loss) per share is calculated using the weighted average number of shares outstanding during the period. Diluted earnings (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 with the anti-dilutive effect of these elements.

Future changes in accounting policies

IFRS 9 - Financial Instruments ("IFRS 9") was issued by the IASB on November 12, 2009 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for

Notes to Interim Consolidated Financial Statements (unaudited)

September 30, 2011 and 2010

annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

IFRS 7 - Financial Instruments: Disclosures ("IFRS 7") was issued by the IASB on October 7, 2010 and contains amendments to the existing IFRS 7. The amendments to IFRS 7 enhance disclosure requirements about transfers of financial assets. The amendments of IFRS 7 are effective for annual periods beginning on or after July 1, 2011. The Company is currently evaluating the impact of the amendments to IFRS 7 on its consolidated financial statements.

3. Significant accounting estimates and judgments

The preparation of consolidated financial statements requires management to make estimates and judgments about the future.

The estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Significant estimates and assumptions

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below:

Allowance for doubtful accounts

The Company makes assessments on whether accounts receivable are collectible from customers. Accordingly, management establishes an allowance for estimated losses arising from non-payment, taking into consideration customer creditworthiness, current economic trends and past experience. If future collections differ from estimates, future earnings are affected.

Investment tax credits receivable

Management has made a number of estimates and assumptions in determining the expenditures eligible for the investment tax credit claim. It is possible that the allowed amount of the investment tax credit claim could be materially different from the recorded amount upon assessment by the tax authorities.

Income taxes

For the recognition of deferred tax assets arising from the carryforward of unused tax losses, the Company estimates the taxable profit that will be available against which the unused tax losses can be utilized.

Deferred tax estimation

Deferred tax assets and liabilities recognition involves making a series of assumptions. For instance, the Company has to estimate the timing of the reversal of temporary differences or if it is probable that temporary differences will not reverse in the foreseeable future or the tax rates expected to apply to the period when the asset is realized or the liability is settled.

As far as deferred tax assets are concerned, their realization ultimately depends on taxable profits being available in the future. Deferred tax assets should be recognized when it is probable that taxable profits will be available against which the deferred tax asset can be utilized and it is probable that the Company will earn sufficient taxable profit in future periods to benefit from a reduction in tax payments. This involves the Company making assumptions within its overall tax-planning activities and periodically reassessing them in order to reflect changed circumstances as well as tax regulations. Moreover, the measurement of a deferred tax asset or liability should reflect the manner in which the entity expects to recover the asset's carrying value or settle the liability.

Notes to Interim Consolidated Financial Statements (unaudited)

September 30, 2011 and 2010

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Critical judgments in applying accounting policies

The following are the critical judgments that the management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

Revenue Recognition

The Company uses the percentage of completion method in accounting for its analysis revenue from analytical and bioanalytical services and its project revenue from analytical and medical laboratory services. Use of the percentage of completion method requires management to estimate the services performed to date as a proportion of the total services to be performed.

4. Transition to IFRS

The Company's consolidated financial statements for the year ending December 31, 2011 will be the first annual consolidated financial statements that comply with IFRS. These interim consolidated financial statements were prepared as described in note 2, including the application of IFRS 1 First-time Adoption of International Financial Reporting Standards. IFRS 1 requires an entity to adopt IFRS in its first annual consolidated financial statements prepared under IFRS by making an explicit and unreserved statement in those consolidated financial statements of compliance with IFRS. The Company will make this statement when it issues its 2011 annual consolidated financial statements.

Under IFRS 1 the standards are applied retrospectively at the transitional balance sheet date with all adjustments to assets and liabilities taken to retained earnings unless certain exemptions are applied. The Company has applied the following exemptions to its opening balance sheet dated January 1, 2010:

i) Business combinations

IFRS 1 indicates that a first-time adopter may elect to apply IFRS 3R Business Combinations retrospectively to business combinations that occurred before the date of transition to IFRS. The Company has taken advantage of this election and has applied IFRS 3R to business combinations that occurred on or after January 1, 2010 and business combinations occurring before the date of transition have not been restated. Any goodwill arising on such business combinations before the date of transition has not been adjusted from the carrying value previously determined under Canadian GAAP as a result of applying this exemption.

ii) Share-based compensation

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 Share-based Payments to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to January 1, 2010.

iii) Fair value as deemed cost

IFRS 1 indicates that an entity can elect to measure an item of property, plant and equipment at the date of transition at its fair value and use that fair value as its deemed cost at that date. The Company has elected to measure its lab equipment at fair value as at the date of transition and use this amount as its deemed cost in the opening IFRS balance sheet.

Notes to Interim Consolidated Financial Statements (unaudited)

September 30, 2011 and 2010

IFRS 1 also outlines specific guidelines that a first-time adopter must adhere to under certain circumstances. The Company has applied the following guideline to its opening statement of financial position dated January 1, 2010:

i) Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of January 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

Reconciliations of Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. In order to allow the users of the consolidated financial statements to better understand these changes, the Company's Canadian GAAP statement of operations(loss), statement of comprehensive income(loss), balance sheet and statement of cash flows have been reconciled to IFRS, with the resulting differences explained.

Reconciliation of equity as reported under Canadian GAAP and IFRS

The following is a reconciliation of the Company's total equity reported in accordance with Canadian GAAP to its total equity in accordance with IFRS at the transition date (January 1, 2010):

Reconciliation of equity - January 1, 2010

	Capital stock \$	Equity component of debenture \$	Other reserves \$	Deficit \$	Total equity \$
As reported under Canadian GAAP – December 31, 2009	40,981,049	312,288	2,466,016	(40,172,405)	3,586,948
Reclassification of equity component of debentures to other reserves	-	(312,288)	312,288	-	-
Differences increasing (decreasing) reported amount:					
Property, plant and equipment (i)	-	-	-	493,458	493,458
Equity portion of debentures (ii)	-	-	(5,998)	5,998	-
Liability portion of debentures (ii)	-	-	-	57,758	57,758
As reported under IFRS – January 1, 2010	40,981,049	-	2,772,306	(39,615,191)	4,138,164

The following is a reconciliation of the Company's equity reported in accordance with Canadian GAAP to its equity in accordance with IFRS at September 30, 2010:

Notes to Interim Consolidated Financial Statements (unaudited)

September 30, 2011 and 2010

Reconciliation of equity - September 30, 2010

	Capital stock \$	Equity component of debenture \$	Other reserves \$	Deficit \$	Total equity \$
As reported under Canadian GAAP – September 30, 2010	40,981,049	312,288	2,456,265	(40,952,705)	2,796,897
Reclassification of equity component of debentures to other reserves	-	(312,288)	312,288	-	-
Differences increasing (decreasing) reported amount:					
Property, plant and equipment (i)	-	-	-	419,439	419,439
Equity portion of debentures (ii)	-	-	(5,998)	5,998	-
Liability portion of debentures (ii)	-	-	-	30,893	30,893
Provisions (iii)	-	-	-	-	-
Share-based compensation (iv)	-	-	41,004	(41,004)	-
As reported under IFRS – September 30, 2010	40,981,049	-	2,803,559	(40,537,379)	3,247,229

The following is a reconciliation of the Company's equity reported in accordance with Canadian GAAP to its equity in accordance with IFRS at December 31, 2010:

Reconciliation of equity - December 31, 2010

	Capital stock \$	Equity component of debenture \$	Other reserves \$	Deficit \$	Total equity \$
As reported under Canadian GAAP – December 31, 2010	40,981,049	312,288	2,456,265	(41,731,888)	2,017,714
Reclassification of equity component of debentures to other reserves	-	(312,288)	312,288	-	-
Differences increasing (decreasing) reported amount:					
Property, plant and equipment (i)	-	-	-	394,766	394,766
Equity portion of debentures (ii)	-	-	(5,998)	5,998	-
Liability portion of debentures (ii)	-	-	-	21,163	21,163
Provisions (iii)	-	-	-	-	-
Share-based compensation (iv)	-	-	41,004	(41,004)	-
As reported under IFRS – December 31, 2010	40,981,049	-	2,803,559	(41,350,965)	2,433,643

(i) Property, plant and equipment

Upon transition to IFRS, the Company elected to value its lab equipment at fair value as deemed cost. Based upon an evaluation received from a professional independent valuator, the fair value of this equipment at January 1, 2010 was determined to be \$493,458 higher than net carrying amount. The corresponding credit to this increase in property, plant and equipment is through deficit. The fair value becomes the new cost basis of the lab equipment and additional depreciation is taken on the bump up to fair value each reporting period. The adjustment to the fair value of the lab equipment, upon transition, resulted in a decrease in the deferred tax asset on the balance sheet with a corresponding adjustment to the deferred tax valuation allowance.

Notes to Interim Consolidated Financial Statements (unaudited)

September 30, 2011 and 2010

(ii) Equity and liability portion of debentures

In accordance with Canadian GAAP, transaction costs incurred on the issue of the debentures were expensed. IFRS requires that these transaction costs be netted against the fair value of financial instrument in determining the amortized cost using the effective interest method. Furthermore, IFRS requires transaction costs that relate to the issue of a compound financial instrument be allocated to the liability and equity components of the instrument in proportion to the allocation of proceeds. The Company incurred transaction costs, upon the 2008 issue of debentures, of \$112,616. Upon transition to IFRS, the remaining balance amounted to \$63,756, calculated using the effective interest method, of which \$57,758 related to the liability portion and \$5,998 to the equity portion of the debenture. The corresponding credit to reverse these transaction costs is through deficit. A deferred tax liability was recognized with respect to the taxable temporary difference between the carrying amount of the liability component and the tax basis of the debenture which is the face value of the debt. This resulted in a decrease in the deferred tax asset on the balance sheet with a corresponding adjustment to the deferred tax valuation allowance.

(iii) Provisions

In Q1 2010, the Company determined, in accordance with IAS 37 *Provisions*, that a present obligation existed due to an ongoing event. A lawsuit was instituted against the Company related to the dismissal of an employee and an estimated amount of \$25,000 was recorded in accordance with IFRS. In Q2 2010, as per Canadian GAAP, the Company recorded a provision of \$18,400. This lawsuit was settled in Q3 2010 for \$12,000.

(iv) Share-based compensation

In the Canadian GAAP Q1 2010 consolidated financial statements, the Company reversed the compensation expense for all options forfeited in the period, even if the options had vested. In accordance with IFRS, the Company is not entitled to make subsequent adjustments to total equity after the vesting date. The reversal of the compensation expense in the amount of \$41,004 was adjusted to be in accordance with IFRS.

Reconciliation of net loss as reported under Canadian GAAP and IFRS

The following is a reconciliation of the Company's net loss reported in accordance with Canadian GAAP to its net loss in accordance with IFRS for the year ended December 31, 2010 and three and nine months ended September 30, 2011.

Reconciliation of net profit (loss)

		Three months ended September 30, 2010 \$	Nine months ended September 30, 2010 \$	Year ended December 31, 2010 \$
Net profit (loss) and comprehensive income (loss) under Canadian GAAP		5,569	(780,300)	(1,559,483)
Differences increasing (decreasing) reported amount:				
Property, plant and equipment	(i)	(24,673)	(74,019)	(98,692)
Liability portion of debentures	(ii)	(9,332)	(26,865)	(36,595)
Provisions	(iii)	-	-	-
Share-based compensation	(iv)	-	(41,004)	(41,004)
Net profit (loss) and comprehensive income (loss) under IFRS		(28,436)	(922,188)	(1,735,774)

Notes to Interim Consolidated Financial Statements (unaudited)

September 30, 2011 and 2010

(i) Property, plant and equipment

Upon transition to IFRS, the Company elected to value its lab equipment at fair value as deemed cost. Based upon an evaluation received from a professional independent valuer, the fair value of this equipment at January 1, 2010, was determined to be \$493,458 higher than net carrying amount. The fair value became the new cost basis of the lab equipment and additional depreciation of \$24,673 was taken on the bump up to fair value in Q1 2010 and each quarter thereafter totalling \$98,692 annually.

(ii) Equity and liability portion of debentures

In accordance with Canadian GAAP, transaction costs incurred on the issue of the debentures were expensed. IFRS requires that these transaction costs be netted against the fair value of financial instrument in determining the amortized cost using the effective interest method. Furthermore, IFRS requires transaction costs that relate to the issue of a compound financial instrument be allocated to the liability and equity components of the instrument in proportion to the allocation of proceeds. The Company incurred transaction costs, upon the 2008 issue of debentures, of \$112,616. Upon transition to IFRS, the remaining balance amounted to \$63,758, calculated using the effective interest method, of which \$57,758 related to the liability portion and \$5,998 to the equity portion of the debenture. The accretion of interest, included in finance expenses, amounted to \$8,583 in Q1 2010, \$8,950 in Q2 2010, \$9,332 in Q3 2010 and \$36,595 annually.

(iii) Provisions

In Q1 2010, the Company determined, in accordance with IAS 37 *Provisions*, that a present obligation existed due to an ongoing event. A lawsuit was instituted against the Company related to the dismissal of an employee and an estimated amount of \$25,000 was recorded in accordance with IFRS. In Q2 2010, as per Canadian GAAP, the Company recorded a provision of \$18,400. This lawsuit was settled in Q3 2010 for \$12,000.

(iv) Share-based compensation

In the Canadian GAAP Q1 2010 consolidated financial statements, the Company reversed the compensation expense for all options forfeited in the period, even if the options had vested. In accordance with IFRS, the Company is not entitled to make subsequent adjustments to total equity after the vesting date. The reversal of the compensation expense in the amount of \$41,004 was adjusted to be in accordance with IFRS.

Reconciliation of cash flows

The transition from Canadian GAAP to IFRS did not have a significant impact on the cash flow generated by the Company.

5. Trade and other receivables

	September 30, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Trade receivables	2,821,325	2,941,814	2,925,847
Less: allowance for doubtful accounts	-	(6,354)	(45,588)
	2,821,325	2,935,460	2,880,259
Investment tax credits receivable	507,000	498,000	712,471
Other	17,341	44,839	660
	3,345,666	3,478,299	3,593,390

Notes to Interim Consolidated Financial Statements (unaudited)

September 30, 2011 and 2010

The ageing of gross trade receivables at each reporting date was as follows:

	September 30, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Current	1,965,330	1,051,389	1,436,878
Past due – 31 - 60 days	537,814	973,161	641,439
Past due – 61 - 90 days	178,083	845,911	375,994
Past due – greater than 91 days	140,098	71,353	471,536
	<u>2,821,325</u>	<u>2,941,814</u>	<u>2,925,847</u>

Ageing of impaired trade receivables

	September 30, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
61-90 days	-	629	-
Greater than 91 days	-	5,725	45,588
	<u>-</u>	<u>6,354</u>	<u>45,588</u>

Trade receivables disclosed above include amounts that are past due at the end of the reporting period and against which the Company has recognized an allowance for doubtful accounts because there has been a significant change in credit quality.

The remaining receivables include amounts that are past due at the end of the reporting period but against which the Company has not recognized an allowance for doubtful accounts because there has not been a significant change in credit quality and the amounts are still considered recoverable.

Movement in the allowance for doubtful accounts

	September 30, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Balance at beginning of the period	6,354	45,588	30,565
Impairment losses recognized on receivables	4,948	6,354	15,023
Amounts written off during the period as uncollectible	(6,788)	(13,577)	-
Amounts recovered during the period	(4,514)	(32,011)	-
Balance at end of the period	<u>-</u>	<u>6,354</u>	<u>45,588</u>

In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited because there is no significant exposure to any single customer and because customer creditworthiness is evaluated before credit is extended.

Notes to Interim Consolidated Financial Statements (unaudited)

September 30, 2011 and 2010

6. Inventory

The cost of inventory recognized as an expense during the period ended September 30, 2011, was \$2,687,077 (\$2,805,945 as at September 30, 2010).

There have been no write-downs of inventory or reversals for the periods ended September 30, 2011, and September 30, 2010.

	September 30, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Total consumables	419,162	355,132	177,027

7. Property, plant and equipment

	Laboratory equipment \$	Machinery and equipment \$	Computer equipment \$	Furniture, fixtures and telephone equipment \$	Leasehold improve- ments \$	Non- refundable government financial assistance \$	Total \$
Cost or valuation							
Balance –							
January 1, 2010	13,952,327	113,004	808,647	558,346	5,719,213	(465,000)	20,686,537
Additions	113,809	-	45,522	2,644	27,041	-	189,016
Disposals	-	-	-	-	-	-	-
Balance –							
December 31, 2010	14,066,136	113,004	854,169	560,990	5,746,254	(465,000)	20,875,553
Additions	101,830	-	22,427	1,822	1,917	-	127,996
Disposals	-	-	-	-	-	-	-
Balance –							
September 30, 2011	14,167,966	113,004	876,596	562,812	5,748,171	(465,000)	21,003,549
Accumulated depreciation							
Balance –							
January 1, 2010	8,166,544	23,835	607,717	409,371	3,894,155	(284,059)	12,817,563
Depreciation	1,166,743	17,834	68,412	30,060	241,913	(36,189)	1,488,773
Impairment	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
Balance –							
December 31, 2010	9,333,287	41,669	676,129	439,431	4,136,068	(320,248)	14,306,336
Depreciation	719,191	10,700	43,446	18,447	185,728	(21,713)	955,799
Impairment	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
Balance –							
September 30, 2011	10,052,478	52,369	719,575	457,878	4,321,796	(341,961)	15,262,135
Carrying amount							
January 1, 2010	5,785,783	89,169	200,930	148,975	1,825,058	(180,941)	7,868,974
December 31, 2010	4,732,849	71,335	178,040	121,559	1,610,186	(144,752)	6,569,217
September 30, 2011	4,115,488	60,635	157,021	104,934	1,426,375	(123,039)	5,741,414

Notes to Interim Consolidated Financial Statements (unaudited)

September 30, 2011 and 2010

The above includes laboratory equipment under finance lease having a cost of \$1,011,030 (\$1,623,809 as at December 31, 2010; \$1,623,809 as at January 1, 2010) and having a net carrying amount of \$531,667 (\$984,000 as at December 31, 2010; \$1,230,000 as at January 1, 2010), and computer equipment under finance lease having a cost of \$37,439 (\$37,439 as at December 31, 2010; \$37,439 as at January 1, 2010) and a net carrying amount of \$17,486 (\$22,563 as at December 31, 2010; \$32,232 as at January 1, 2010).

There were no impairment charges in 2011 or 2010.

8. Intangibles

	Licences \$	Customer lists \$	Computer software \$	Total \$
Cost				
Balance – January 1, 2010	33,380	38,936	789,561	861,877
Additions	-	-	126,640	126,640
Disposals	-	-	-	-
Balance – December 31, 2010	33,380	38,936	916,201	988,517
Additions	-	-	17,642	17,642
Disposals	-	-	-	-
Balance – September 30, 2011	33,380	38,936	933,843	1,006,159
Accumulated amortization				
Balance – January 1, 2010	15,577	6,489	457,666	479,732
Amortization	6,676	12,978	81,946	101,600
Impairment	-	-	-	-
Disposals	-	-	-	-
Balance – December 31, 2010	22,253	19,467	539,612	581,332
Amortization	5,007	9,734	58,596	73,337
Impairment	-	-	-	-
Disposals	-	-	-	-
Balance – September 30, 2011	27,260	29,201	598,208	654,669
Carrying amount				
January 1, 2010	17,803	32,447	331,895	382,145
December 31, 2010	11,127	19,469	376,589	407,185
September 30, 2011	6,120	9,735	335,635	351,490

9. Goodwill

The Company performed its annual test for goodwill impairment upon transition to IFRS and in the fourth quarter of 2010 in accordance with its policy described in notes 2 and 3.

Goodwill has been allocated for impairment testing purposes to the cash generating unit entitled Medical Laboratories. This has been determined to be the lowest level smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of this cash-generating unit is determined based on a value in use calculation. The value in use is determined from the present value of the future net cash flows. The net cash inflows are discounted at a pre-tax rate equivalent to the weighted average cost of equity and debt capital related to the risk specific to the asset. The value in use calculation uses cash flow projections based on financial budgets prepared by management using a discount rate of 15.6% per annum and a growth rate of 2.5% per annum.

Notes to Interim Consolidated Financial Statements (unaudited)

September 30, 2011 and 2010

The estimated value in use of the cash-generating unit to which goodwill is assigned exceeded its carrying value. As a result, no goodwill impairment was recorded.

An adverse change in the key assumptions used may result in the recognition of an impairment loss.

10. Credit facilities

The Company has the following credit facilities which are renewable with the bank on March 31, 2012:

- i) \$1,250,000 operating line of credit which is due on demand and bears interest at the bank's prime lending rate;
- ii) \$350,000 bank term loan, due March 2012, bearing interest at the bank's prime lending rate and repayable by monthly instalments of \$12,374 plus interest (note 12).

As security for the facilities, the Company and its subsidiaries have provided a first ranking moveable hypothec in the amount of \$6,000,000 covering the universality of tangible and intangible moveable properties, present and future.

In April 2011, the Company entered into a credit support agreement with Persistence Capital Partners ("Guarantor"), an institutional shareholder and one of the debenture holders, to guarantee the Company's obligations with its current banker. This agreement requires the Guarantor to maintain a \$1,600,000 letter of credit in favour of the bank to guarantee the existing credit facilities until March 31, 2012.

In addition, the Company pays, on a monthly basis, to the Guarantor an annual guarantee fee equal to 9.75% less the bank's prime rate and a daily standby fee on the unused portion of the operating line of credit of 0.0125%.

The credit support agreement requires the following monthly financial covenants to be met:

	Leverage ratio	Fixed charge coverage ratio
March 31, 2011	8.00:1	0.91:1
April 30, 2011	8.00:1	0.89:1
May 31, 2011	8.00:1	0.98:1
June 30, 2011	7.00:1	0.67:1
July 31, 2011	7.00:1	0.56:1
August 31, 2011	7.00:1	0.63:1
September 30, 2011	7.00:1	0.56:1
October 31, 2011	6.00:1	0.84:1
November 30, 2011	6.00:1	0.94:1
December 31, 2011	5.00:1	1.10:1
Thereafter	4.00:1	1.10:1

As at September 30, 2011, the Company is not in compliance with the covenants contained in the credit support agreement.

Notes to Interim Consolidated Financial Statements (unaudited)

September 30, 2011 and 2010

11. Provisions

	September 30, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Provisions	110,853	-	-

The provision represents an estimation of the pay equity program payable to certain employees. This provision is also short-term in nature. As of December 31, 2010, due to the progression of the project, the Company could not provide a reliable estimate for this obligation.

The provision for employee benefits reported in the previous quarters of 2011 has been reclassified as trade and other payables.

12. Long-term debt

	September 30, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Bank term loan, due March 2012, bearing interest at the bank's prime lending rate, repayable by monthly instalments of \$12,374 plus interest and secured as described in note 10. The Company did not meet the covenants contained in the credit support agreement as described in note 10.	74,242	175,000	291,667
8.5% finance lease, due November 2011, repayable by monthly instalments of \$25,750 principal and interest. This obligation is secured by specific equipment having a carrying amount of \$531,667.	50,957	271,577	544,758
9.4% finance lease, due April 2012, repayable by monthly instalments of \$686 principal and interest. This obligation is secured by specific equipment having a carrying amount of \$9,720.	4,652	10,272	17,177
9.4% finance lease, due June 2012, repayable by monthly instalments of \$519 principal and interest. This obligation is secured by specific equipment having a carrying amount of \$7,765.	4,495	8,684	13,832
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.	19,124	38,250	76,499
Business Development Bank of Canada (BDC) term loan, bearing interest at 2% per annum over the BDC's floating rate, repaid during the period.	-	13,200	52,800
Bank term loan, bearing interest at 2.25% per annum over the bank's prime lending rate, repaid during the period.	-	277,778	944,444
6.6% finance lease, repaid during the period.	-	105,677	306,856
	153,470	900,438	2,248,033
Current	153,470	894,716	1,800,372
Non-current	-	5,722	447,661

Notes to Interim Consolidated Financial Statements (unaudited)

September 30, 2011 and 2010

The liabilities under finance leases mature as follows:

	Minimum lease payments		Present value of minimum lease payments	
	September 30, 2011 \$	December 31, 2010 \$	September 30, 2011 \$	December 31, 2010 \$
Not later than one year	60,970	405,440	60,104	390,488
Later than one year and not later than five years	60,970	5,859	-	5,722
	-	411,299	60,104	396,210
Less future finance charges	866	15,089	-	-
Present value of minimum lease payments	60,104	396,210	60,104	396,210
Included in the consolidated financial statements as:				
- current long-term debt			60,104	390,488
- long-term debt			-	5,722
			60,104	396,210

Principal payments required on the long-term debt for the next year total \$93,366.

Notes to Interim Consolidated Financial Statements (unaudited)

September 30, 2011 and 2010

13. Debentures

	September 30, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
a) \$500,000 convertible debenture in conjunction with that described in d), are secured by a charge on all of the property and assets of the Company in the amount of \$2,500,000, bearing interest at a rate of 12% per annum maturing November 8, 2011, with an option for further extension to no later than December 13, 2011, and convertible into common shares at the lower of \$0.06 or a specified formula based on market price at the time of conversion. 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 \$0.25 a share until October 24, 2011. This amount includes accrued interest of \$15,123.	515,123	500,000	500,000
b) US\$3,873,008 convertible debenture secured by a charge on all of the property and assets of the Company in the amount of \$7,746,790, bearing interest at a rate of 12% per annum maturing November 8, 2011, with an option for further extension to no later than December 13, 2011, and convertible into common shares at the lower of \$0.06 or a specified formula based on market price at the time of conversion. This amount includes accrued interest of \$115,318.	4,182,981	3,852,093	4,070,531
c) US\$333,333 convertible debenture secured by a charge on all of the property and assets of the Company in the amount of \$666,666, bearing interest at a rate of 12% per annum maturing November 8, 2011, with an option for further extension to no later than December 13, 2011, and convertible into common shares at the lower of \$0.06 or a specified formula based on market price at the time of conversion. This amount includes accrued interest of \$9,925.	360,011	331,533	350,333
d) \$1,500,000 convertible debenture in conjunction with that described in a) are secured by a charge on all of the property and assets of the Company in the amount of \$2,500,000, bearing interest at a rate of 12% per annum maturing November 8, 2011, with an option for further extension to no later than December 13, 2011, and convertible into common shares at the lower of \$0.06 or a specified formula based on market price at the time of conversion. This amount includes accrued interest of \$45,370.	1,545,370	1,500,000	1,500,000
	6,603,485	6,183,626	6,420,864
Transaction costs and discount on debentures	-	(83,445)	(233,348)
Current	(6,603,485)	(6,100,181)	-
Non-current	-	-	6,187,516

As described in note 24, the Company is in default under the terms of all its outstanding debentures which matured on November 8, 2011, and is currently negotiating with the debenture holders to extend the maturity dates and modify various other terms and conditions of the debentures.

Notes to Interim Consolidated Financial Statements (unaudited)

September 30, 2011 and 2010

The nominal and effective interest rates are as follows:

	Nominal	Effective
\$500,000 maturing November 8, 2011	12.0%	14.68%
US\$3,873,008 maturing November 8, 2011	12.0%	14.68%
US\$333,333 maturing November 8, 2011	12.0%	14.68%
\$1,500,000 maturing November 8, 2011	12.0%	14.68%

The debentures were recorded net of transaction costs of \$112,616 of which \$106,618 related to the liability component and \$5,998 related to the equity component. As at September 30, 2011, the transaction costs related to the debentures are all amortized.

The equity component of the debentures included in other reserves is \$312,288, net of transaction costs of \$5,998 for a total of \$306,290

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 common shares

	September 30, 2011		December 31, 2010	
	Number	\$	Number	\$
Balance, beginning of period	67,117,191	40,981,049	67,117,191	40,981,049
Issuance of shares	-	-	-	-
Balance, end of period	67,117,191	40,981,049	67,117,191	40,981,049

c) Share-based compensation

The Company has in place an Incentive Stock Option Plan. The Plan provides that the terms of the options 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 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 September 30, 2011, the Company has granted options to purchase 1,852,711 (1,852,711 as at December 31, 2010) common shares at various exercise prices, each pursuant to the Incentive Stock Option Plan of the Company, expiring no later than the year 2020.

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

Notes to Interim Consolidated Financial Statements (unaudited)

September 30, 2011 and 2010

	September 30, 2011		December 31, 2010	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Balance, beginning of period	1,852,711	0.35	869,229	0.61
Granted	-	-	1,080,648	0.15
Exercised	-	-	-	-
Cancelled	-	-	(97,166)	0.43
Balance, end of period	1,852,711	0.35	1,852,711	0.35
Exercisable at the end of period	1,852,711	0.35	1,852,711	0.35

Stock options outstanding are as follows:

Range of exercise prices \$	September 30, 2011			December 31, 2010		
	Number	Weighted average remaining life (years)	Weighted average exercise price \$	Number	Weighted average remaining life (years)	Weighted average exercise price \$
0.15 - 0.19	1,477,311	8.18	0.15	1,477,311	8.92	0.15
0.84 - 0.95	89,500	2.53	0.87	89,500	3.23	0.87
1.08 - 1.10	95,000	4.31	1.10	95,000	5.00	1.10
1.15 - 1.35	190,900	2.89	1.31	190,900	3.60	1.31
	1,852,711			1,852,711		

During 2011, the Company granted nil (1,080,648 in 2010) options to purchase common shares. The weighted average fair value of options granted during the period amounted to \$nil (\$0.13 in December 2010) per option. The fair value of each option granted was determined using the Black-Scholes option pricing model and the following weighted average assumptions:

	September 30, 2011	December 31, 2010
Risk-free interest rate	2.84%	2.84%
Expected life	10 years	10 years
Expected volatility in the market price of the shares	86.2%	86.2%
Expected dividend yield	-	-

d) Share warrants

The share warrants outstanding are as follows:

Expiry date	Exercise price \$	September 30, 2011	December 31, 2010
June 25, 2011	0.25	-	1,570,983
October 24, 2011	0.25	2,000,000	2,000,000
Balance, end of period		2,000,000	3,570,983

Notes to Interim Consolidated Financial Statements (unaudited)

September 30, 2011 and 2010

15. Taxation

- a) The expense for the period can be reconciled to the accounting profit as follows:

	Period ended September 30, 2011 \$	Year ended December 31, 2010 \$
Net loss	(1,622,417)	(1,735,774)
Basic income tax rate	28.4%	29.9%
Computed income tax recovery	(460,766)	(518,996)
Effect on income tax rate resulting from:		
- Unrecorded potential tax benefits of current period losses, timing differences and loss carry forwards	440,810	458,062
- Accounting charges not deductible for tax purposes	19,956	60,934
	-	-

- b) Deferred tax balances

	Opening balance \$	Recognized in profit (loss) \$	Closing balance \$
December 31, 2010			
Temporary differences			
Property, plant and equipment	1,864,743	365,873	2,230,616
Convertible debentures	(69,771)	7,053	(62,718)
	1,794,972	372,926	2,167,898
Unused tax losses and credits			
Tax losses	6,032,643	(1,009,924)	5,022,719
Unused investment tax credits	1,928,478	178,445	2,106,923
Research and development expenses	2,839,934	(237,372)	2,602,562
	12,596,027	(695,925)	11,900,102
Valuation allowance of deferred tax assets	(11,375,027)	695,925	(10,679,102)
	1,221,000	-	1,221,000

- c) As at December 31, 2010, the Company had accumulated non-capital losses for federal and provincial income tax purposes of approximately \$18,696,000 and \$18,754,000 respectively. These losses may be applied against taxable income of future years, not later than as follows:

	Federal \$	Provincial \$
2014	5,788,000	5,680,000
2015	4,199,000	4,150,000
2023	163,000	163,000
2024	274,000	274,000
2025	73,000	73,000
2026	5,872,000	6,087,000
2027	411,000	411,000
2028	65,000	65,000
2029	207,000	207,000
2030	1,644,000	1,644,000
	18,696,000	18,754,000

Notes to Interim Consolidated Financial Statements (unaudited)

September 30, 2011 and 2010

- d) As at December 31, 2010, the Company had accumulated unused investment tax credits for federal income tax purposes of approximately \$2,752,000. These investment tax credits may be applied against taxable income of future years not later than as follows:

	\$
2020	78,000
2021	172,000
2022	307,000
2023	292,000
2024	419,000
2025	347,000
2026	395,000
2027	135,000
2028	273,000
2029	334,000
	<u>2,752,000</u>

- e) As at December 31, 2010, the Company and its subsidiaries had research and development expenses for federal and provincial income tax purposes of approximately \$7,735,500 and \$12,097,500 respectively, which have not been deducted. These expenses may be applied against taxable income of future years.

16. Loss per share

	September 30, 2011	December 31, 2010
Basic loss per share		
Loss used in the calculation of total basic loss per share	\$(1,622,417)	\$(1,735,774)
Weighted average number of ordinary shares for the purposes of basic loss per share	67,117,191	67,117,191
Total basic loss per share	\$(0.02)	\$(0.03)
Diluted loss per share		
Loss used in the calculation of total diluted loss per share	\$(1,622,417)	\$(1,735,774)
Weighted average number of ordinary shares used in the calculation of diluted loss per share	255,788,191	67,117,191
Total diluted loss per share	\$(0.01)	\$(0.03)

The following potential ordinary shares are anti-dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted loss per share.

	September 30, 2011	December 31, 2010
Convertible debentures	-	16,800,000
Employee options	1,852,711	1,852,711
Share warrants	2,000,000	3,570,983
	<u>3,852,711</u>	<u>22,223,694</u>

Notes to Interim Consolidated Financial Statements (unaudited)

September 30, 2011 and 2010

17. Financial instruments

The Company uses various methods in estimating the fair value of a financial instrument. The methods used comprise the following inputs:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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.

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. Individual overdue accounts are reviewed and allowance adjustments are recorded when determined necessary to state receivables at the realizable value. If the financial conditions of customers deteriorate, resulting in their diminished ability or willingness to make payment, additional provisions for doubtful accounts are recorded. The Company's maximum credit risk exposure corresponds to the carrying amounts of the accounts receivable.

The Company's allowance for doubtful accounts is \$nil (\$6,354 in December 2010). Of the Company's accounts receivable, \$140,098 (\$71,353 in December 2010) is greater than 90 days. Any amounts not provided for are considered to be fully collectable.

The Company does not have any customers which account for more than 10% of the accounts receivable as at September 30, 2011 (one customer for approximately 16% in December 2010).

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 mitigates its interest rate exposure.

Notes to Interim Consolidated Financial Statements (unaudited)

September 30, 2011 and 2010

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:

September 30, 2011	U.S. dollars	Euros
Cash	152,943	-
Trade and other receivables	823,278	-
Work-in-progress	329,816	-
Trade and other payables	383,666	3,143
Deferred revenue	788,389	-

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. The Company is currently seeking alternatives to refinance or repay the debentures.

18. 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 debentures.

The Company's objective when managing capital is also to maintain adequate financial flexibility in order to preserve its ability to meet financial obligations, including debt servicing payments. The Company is in the process of analyzing its cash flow needs and in reviewing the alternatives between its current debenture structure, seeking new investors or other strategies.

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.

Notes to Interim Consolidated Financial Statements (unaudited)

September 30, 2011 and 2010

19. Information relating to the consolidated statements of operations and comprehensive income (loss)

For the nine months ended September 30	2011 \$	2010 \$
a) The following items are included in cost of goods sold:		
Wages and salaries	6,938,733	7,855,929
Depreciation of property, plant and equipment	800,340	950,889
Foreign exchange loss		
b) The following item is included in selling expenses:		
Wages and salaries	481,398	511,461
c) The following items are included in general and administrative expenses:		
Wages and salaries	1,931,335	2,098,381
Depreciation of property, plant and equipment	155,459	162,234
Amortization of intangibles	73,337	74,111
Loss (gain) on foreign exchange	279,560	(47,774)
d) The following items are included in finance expenses:		
Accretion of interest on debentures	71,114	107,341
Interest and bank charges	218,557	99,736
Interest on long-term debt	24,191	77,050
Interest on debentures	551,054	575,496

20. Supplemental cash flow information

- a) Cash flows from operations include interest paid of \$586,658 (\$682,980 in 2010)
- b) Net change in non-cash working capital items is comprised of the following:

For the nine months ended September 30	2011 \$	2010 \$
Trade and other receivables	188,159	(669,925)
Work-in-progress	(131,037)	297,547
Inventory	(64,030)	8,594
Prepaid expenses	(145,753)	(52,645)
Trade and other payables	380,715	(49,104)
Provisions	110,853	-
Deferred revenue	152,473	51,476
	491,380	(414,057)

Notes to Interim Consolidated Financial Statements (unaudited)

September 30, 2011 and 2010

21. Commitments

- a) The minimum rentals payable under long-term operating leases, exclusive of certain operating costs for which the Company is responsible are approximately as follows:

	Payments \$
2012	743,073
2013	790,048
2014	729,046
2015	723,891
2016	715,675
Thereafter	945,443
	<u>4,647,176</u>

- b) The Company's commitments to purchase products from specific suppliers are approximately as follows:

	Payments \$
2012	69,764
2013	15,000
2014	15,000
2015	15,000
	<u>114,764</u>

22. Related party transactions

During the period ended September 30, 2011, the following transactions occurred:

- i) The Company paid \$1,000 per month for a total of \$9,000 (\$9,000 in 2010), to the Company's Chairman of the Board for his work on specific mandates for the various operating divisions of the Company.
- ii) The Company incurred guarantee and standby fees for an amount of \$30,385 (\$nil in 2010) to an institutional shareholder. In addition, the Company incurred a fee of \$40,000 to set up the guarantee.

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.

23. Operating segments

The Company has chosen to organize the Company into reporting segments by products and services. The Company's reportable segments are as follows:

- Analytical services
- Bioanalytical services
- Medical laboratories

Notes to Interim Consolidated Financial Statements (unaudited)

September 30, 2011 and 2010

The Company derives its revenues from these segments as follows:

Analytical services

Provides quality control services to the pharmaceutical and biotechnology industries, including 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 the development of new pharmaceutical products by conducting bioavailability and bioequivalence studies as part of clinical trials.

Medical laboratories

Provides specialized laboratory testing services to the healthcare and pharmaceutical sectors, including the Prenatest[®] prenatal screening test. This division also offers genetic testing, pharmacogenetic services and human DNA identification including forensic DNA testing.

These segments are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. The accounting policies applied by the segments are the same as those applied by the Company. The Company uses segment operating profit to measure the operating performance of its segments.

For the nine months ended September 30, 2011, the revenue and results of the reportable segments are as follows:

	Segment revenue \$	Segment profit (loss) \$	Amortization \$	Interest expense \$	Income tax expense \$
Analytical services	6,318,166	(573,263)	293,054	10,869	-
Bioanalytical services	5,088,110	1,143,204	484,705	13,203	-
Medical laboratories	3,974,581	917,473	111,163	46,469	-
Corporate expenses	177,135	(3,109,831)	140,214	794,375	-
	15,557,992	(1,622,417)	1,029,136	864,916	-

For the nine months ended September 30, 2010, the revenue and results of the reportable segments are as follows:

	Segment revenue \$	Segment profit (loss) \$	Amortization \$	Interest expense \$	Income tax expense \$
Analytical services	8,371,983	731,263	330,269	14,504	-
Bioanalytical services	4,604,801	554,640	595,409	41,028	-
Medical laboratories	3,818,919	771,759	111,947	47,136	-
Corporate expenses	205,515	(2,979,850)	149,609	756,955	-
	17,001,218	(922,188)	1,187,234	859,623	-

Revenue reported above represents revenue generated from external customers.

For the period ended September 30, 2011, there were no customers which accounted for more than 10% of total revenue. Total revenue for the period ended September 30, 2011, amounted to \$15,557,992.

Notes to Interim Consolidated Financial Statements (unaudited)

September 30, 2011 and 2010

The assets of the reportable segments are as follows:

	September 30, 2011		September 30, 2010	
	Segment assets \$	Additions to non-current assets \$	Segment assets \$	Additions to non-current assets \$
Analytical services	3,819,829	106,506	4,531,867	36,518
Bioanalytical services	4,183,523	33,780	4,979,827	30,902
Medical laboratories	2,588,563	2,356	2,720,538	134,772
Corporate expenses	2,551,080	2,996	2,180,477	20,910
	13,142,995	145,638	14,412,709	223,104

The Company operates in two principal geographical areas – Canada and the United States of America.

The Company's revenue from external customers and information about its non-current assets by geographical location are as follows:

	Segment revenue from external customers		Non-current assets	
	September 30, 2011 \$	September 30, 2010 \$	September 30, 2011 \$	December 31, 2010 \$
Canada	10,252,953	12,410,263	8,251,599	9,135,097
United States of America	4,214,799	3,310,431	-	-
Other	1,090,240	1,280,524	-	-
	15,557,992	17,001,218	8,251,599	9,135,097

24. Events after the balance sheet date

As of November 8, 2011, the Company is in default under the terms of all of its outstanding debentures.

On November 10, 2011, the Company announced that it is currently in advanced negotiations to extend the maturity dates of all of its outstanding convertible debentures that have become due, to modify various other terms and conditions of the debentures and to obtain additional financing to cover current operating expenses as well as certain disbursements.

The Company is not in a financial position to pay the principal and interest due on the debentures, all of which matured on November 8, 2011. As a result of this default, there are certain conditions that would come into effect if the Company cannot reach an agreement with the debenture holders. This includes additional interest in the amount of approximately \$66,000 that would become payable, which has not been accrued as at September 30, 2011.

The Company is also negotiating with Persistence Capital Partners ("PCP"), the Company's largest shareholder and one of the debenture holders, to obtain additional financing, as well as to modify various terms, and waive certain provisions, of an existing credit support agreement pursuant to which PCP guarantees the Company's obligations under its existing banking facilities.