

Protecting Your Health™



TOXIN ALERT INC.

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FIRST QUARTER REPORT 2003

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2002

Message to the Shareholders

To our Shareholders:

During the first Quarter of Fiscal 2003, ended September 30, 2002, Toxin Alert continued to finalize the development of its first test for food freshness. Toxin Alert's market strategy is to apply this test to home storage bags starting with the North American market, working with both local suppliers and larger multinationals in the form of a licensing agreement.

Also during the Quarter, Toxin Alert in preparation for commercialization began discussions with the Canadian Food Inspection Agency (CFIA) and the Health Protection Branch (HPB). We have come to understand all of their requirements and at this time believe that we can meet these requirements. Toxin Alert is planning to make a submission with both the CFIA and HPB sometime in the second or third quarter.

In September, Toxin Alert announced the election of Mr. John McNamara to the Company's board of directors. Mr. McNamara was President of Archer Daniels Midland (ADM), a U.S. based agribusiness and brings over 25 years of experience in the food and agriculture business. Mr. McNamara has already taken a very active role as director and is assisting the Company with its business development activities. He has been successful in arranging several meetings with several large U.S. food processing and large multi-national consumer products companies.

Revenues from the sale of antibodies continue to increase and Toxin Alert expects this trend to continue as demand from existing customers grows. Efforts to expand the customer base are ongoing.

Toxin Alert continues to control its expenditures and is taking various measures to preserve cash. Revenues along with current cash levels and refundable investment tax credits leaves Toxin Alert with less than 12 months' cash resources on hand at the current rate of expenditure. In the absence of any significant revenues from commercialization, Toxin will need to return to capital markets in the near future.

Toxin Alert remains very committed to commercialization of the product and licensing it to appropriate partners. We appreciate your continued patience and support and look forward to reporting our successful progress as it unfolds.

Respectfully submitted,

A. Michael Espy
Chairman
Toxin Alert Inc.

William T. Bodenhamer
President & Chief Executive Officer
Toxin Alert Inc.

Management's Discussion & Analysis of Financial Results

This discussion and analysis covers Toxin Alert Inc.'s ('Toxin' or the 'Company') interim financial statements for the three-month period ended September 30, 2002, prepared in accordance with Canadian generally accepted accounting principles. As well, it provides an update to the discussion and analysis contained in the Company's June 30, 2002 Annual Report. This discussion and analysis should be read in conjunction with the Management's Discussion and Analysis of Financial Results section and the annual financial statements contained in the Company's 2002 Annual Report. All amounts following are expressed in Canadian dollars unless otherwise indicated.

Results of Operations

The Company's first quarter loss from operations was \$276,945, or \$0.04 per share, compared with a loss of \$392,753 or \$0.05 per share during the same period a year ago.

Revenues for the three months ended September 30, 2002 totalled \$142,754, an increase of 262% over the \$39,428 received for the same period a year ago. Revenues for the current period resulted from the following: (a) sale of antibodies - \$135,638, and (b) interest income - \$7,116. The increase in revenue is associated with an increase in the sale of antibodies.

Research and development expenditures for the three months ended September 30, 2002 totalled \$212,913 before consideration of investment tax credits, as compared to \$228,508 during the same period in 2001. The decrease has come about from spending cutbacks, which were put into effect in order to conserve cash.

Investment tax credits have increased to \$67,282 for the three months ended September 30, 2002 as compared to \$59,000 for the three months ended September 30, 2001. This increase is a result of the receipt of a higher provincial tax refund than was accrued in the previous year's financial statements.

General and administrative expenses for the three months ended September 30, 2002 totalled \$241,859, as compared to \$224,669 during the same period a year ago. Consulting fees, which are not expected to reoccur, caused the increase in general and administrative expenses.

Amortization of capital assets for the three months ended September 30, 2002 decreased by \$5,795 to \$32,209, compared with amortization of \$38,004 during the same period a year ago. This decrease reflects the fact that no capital assets were purchased in this quarter.

Liquidity and Capital Resources

As at September 30, 2002, the Company had working capital of \$753,683 with cash resources totaling \$424,658. The Company's cash decreased by approximately \$364,425 during the three months ended September 30, 2002. The decrease relates directly to operating activity.

As at September 30, 2002, Toxin Alert had an estimated \$400,022 of refundable investment tax credit due, of which \$332,740 relates to the year ended June 30, 2002. The Company anticipates collecting the refundable tax credit due pending the outcome of the review of Toxin's claims by tax authorities. For the years ending 1999, 2000 and 2001, Toxin has been successful in collecting a total of \$1.1 million of refundable investment tax credits.

Outlook

The Company continues to pursue commercialization activities. Financial results, for the three months ended September 30, 2002, reflect revenues from the sale of antibodies produced by the Company's research lab, situated at the University of Guelph. In addition, efforts to secure commercialization partners continue and while no assurances can be given at this time, every effort is being made to ensure a favourable outcome.

Risk factors

This discussion and analysis and other sections of the interim financial statements contain forward looking statements, which are based on the Company's current expectations and assumptions, and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those anticipated. Such risks and uncertainties include, but are not limited to, research and development programs, product sales levels, initiation and execution of collaborative agreements and timely regulatory approvals for various products.

Significant funding is required for ongoing research and development, and therefore financial resources are necessary until such time as revenues are sufficient to generate profits. The company is anticipating the receipt of refundable investment tax credits due; there is no guarantee on the timing of this receipt.

There can also be no assurance that any of the products developed by the Company will be successful or that regulatory approval of any of these or future products will be obtained. Furthermore, there can be no assurance that existing products or new products developed by Toxin's competitors will not be more effective than the products developed by Toxin.

In addition, there can be no assurance that Toxin will be issued any patents currently applied for or patents to be applied for in the future. There can also be no assurance that Toxin's existing patents or pending patents will offer protection against competition, or will not be designed around or infringed upon by others.

Balance Sheets

	As at Sept. 30 2002 (unaudited)	As at June 30 2002 (audited)
Assets		
Current assets		
Cash	\$ 424,658	\$ 789,083
Investment tax credit recoverable	400,022	470,000
GST receivable	1,989	1,874
Accounts receivable	101,792	54,848
Prepaid expenses and other receivables	69,944	28,519
	<u>998,405</u>	<u>1,344,324</u>
Capital assets	597,541	629,751
	<u>1,595,946</u>	<u>1,974,075</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	236,722	337,906
Deferred revenue	8,000	8,000
	<u>244,722</u>	<u>345,906</u>
Shareholders' Equity		
Share capital		
September 30, 2002 - 7,658,110	7,443,840	7,443,840
June 30, 2002 - 7,658,110		
Deficit	<u>(6,092,616)</u>	<u>(5,815,671)</u>
	<u>1,351,224</u>	<u>1,628,169</u>
	<u>\$ 1,595,946</u>	<u>\$ 1,974,075</u>

See accompanying notes

Statements of Profit and Loss

	Three Months ended Sept. 30, 2002 (unaudited)	Three Months ended Sept. 30, 2001 (unaudited)	Year ended June 30, 2002 (audited)
Revenue			
Revenue	\$ 135,638	\$ 21,738	\$ 179,663
Interest income	7,116	17,690	46,920
Total revenue	<u>142,754</u>	<u>39,428</u>	<u>226,583</u>
Expenses			
Salaries and benefits	38,786	78,855	250,865
Lab supplies & services	41,255	57,771	259,307
Research funding	81,560	38,961	278,755
Professional fees	42,490	42,476	190,254
Miscellaneous costs	8,822	10,445	45,971
Total research and development	<u>212,913</u>	<u>228,508</u>	<u>1,025,152</u>
Less: Investment tax credits	(67,282)	(59,000)	(396,741)
	<u>145,631</u>	<u>169,508</u>	<u>628,411</u>
Salaries and benefits	49,870	65,256	249,178
Professional fees	149,973	121,792	697,861
Miscellaneous costs	42,016	37,621	226,793
Total general and administration	<u>241,859</u>	<u>224,669</u>	<u>1,173,832</u>
Amortization	32,209	38,004	174,928
Total expenses	<u>419,699</u>	<u>432,181</u>	<u>1,977,171</u>
Loss for the period	<u>276,945</u>	<u>392,753</u>	<u>1,750,588</u>
Deficit beginning of period	<u>5,815,671</u>	<u>4,065,083</u>	<u>4,065,083</u>
Deficit end of period	<u>6,092,616</u>	<u>4,457,836</u>	<u>5,815,671</u>
Loss per common share	0.04	0.05	0.23
Weighted average number of common shares outstanding	7,658,110	7,521,153	7,623,684

See accompanying notes

Statement of Cashflows

	Three Months ended Sept. 30, 2002 (unaudited)	Three Months ended Sept. 30, 2001 (unaudited)	Year ended June 30, 2002 (audited)
Cash flows from operating activities:			
Loss for the period	\$ (276,945)	\$ (392,753)	\$ (1,750,588)
Items not involving cash:			
Amortization	32,209	38,004	174,928
Change in non-cash working capital:			
(Increase) decrease in tax credits recoverable	69,978	(59,039)	(30,000)
(Increase) decrease in GST receivable	(115)	59,700	62,191
(Increase) decrease in accounts receivable	(46,944)	29,731	(13,011)
(Increase) decrease in prepaid expense and other receivables	(41,425)	(34,646)	115,454
Increase (decrease) in accounts payable and accrued liabilities	(101,183)	13,382	193,029
	(364,425)	(345,621)	(1,247,997)
Cash flows from financing activities:			
Issue of common shares, net of issue costs	-	350,000	350,000
	-	350,000	350,000
Cash flows from investing activities:			
Acquisition of capital assets	-	(129)	(96,902)
	-	(129)	(96,902)
Increase (decrease) in cash and cash equivalents	(364,425)	4,250	(994,899)
Cash and cash equivalents, beginning of period	789,083	1,783,982	1,783,982
Cash and cash equivalents, end of period	424,658	1,788,232	789,083
Supplemental cashflow information			
Interest paid	167	-	376
Interest received	7,116	17,690	46,920

See accompanying notes

Notes to Financial Statements (unaudited)

1. Basis of Presentation

The accompanying unaudited interim financial statements have been prepared by the company in accordance with accounting principles generally accepted in Canada for interim financial statements and reflect, in the opinion of management, all adjustments (which include reclassifications and normal recurring adjustments) necessary to present fairly the financial position, results of operation and cash flows at September 30, 2002 and for all periods presented.

The accounting principles and methods of computation adopted in these financial statements are the same as those of the audited financial statements for the year ended June 30, 2002.

Certain information and note disclosure normally included in the financial statements prepared in accordance with accounting principles generally accepted in Canada have been omitted. It is suggested that the present financial statements and notes should be read in conjunction with the audited financial statements for the year ended June 30, 2002. The results of operations for the three-month period ended September 30, 2002 are not necessarily indicative of the results for the full year.

2. Future Operations

These financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize assets and discharge its liabilities and commitments in the normal course of business. The use of the 'going concern' assumption may not be appropriate because the Company experienced significant losses in each year since inception and has experienced significant negative cash flow from operations in the current period.

The ability of the Company to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities when due is dependent on the successful completion of the actions taken or planned and the future outcome of the Company's research and development program, which management believes will mitigate the adverse conditions and events which raise doubt about the validity of the 'going concern' assumption used in preparing these financial statements. There is no certainty that these and other strategies will be sufficient to permit the Company to continue beyond June 30, 2003.

The financial statements do not reflect adjustments that would be necessary if the 'going concern' assumption were not appropriate. If the 'going concern' basis were not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenue and expenses, and the balance sheet classifications used.

3. Loss per Share

Loss per common share has been calculated on the basis of losses divided by the weighted average number of common shares outstanding during the period. Due to the net loss for all periods presented, all potential common shares outstanding are considered anti-dilutive and are excluded from the calculation of diluted loss per share.

4. Share Capital

a. Common Shares and Warrants

During the quarter ended September 30, 2002, no additional shares or warrants were issued.

b. Stock Option Plan

The stock option plan allows for a total of 1,200,000 options. A second plan, which granted options to four senior officers and directors of the Company, is for a total of 300,000 common shares.

c. Stock Options

During the three months ended September 30, 2002, no options were exercised or granted.

At September 30, 2002 the Company had 778,000 stock options outstanding at an average exercise price of \$1.89. The options expire on various dates between December 31, 2002, and November 20, 2006. Of the 300,000 stock options granted to the officers and directors 282,500 were outstanding on September 30, 2002. The exercise price of these options is \$1.00 and they expire on January 1, 2003.

5. Related Party Transactions

During the three months ended September 30, 2002, the Company entered into the following transactions with shareholders and directors:

	Three-Month Revenue (Expense) At Sept. 30, 2002	Three-Month Revenue (Expense) At Sept. 30, 2001
Research fees and reagent sales	\$ 135,637	\$ 21,738
Research and administrative expenses	\$ (10,882)	\$ (16,748)
Consulting services	\$ (45,000)	\$ (60,328)

Expenses for research services, administrative services and consulting services are measured at fair market values. The interest expense is at fair market value as stated in the promissory note.



TOXIN ALERT INC.