

## Statements of Cashflows

	Nine Months ended March 2001 (unaudited)	Nine Months ended March 2000 (unaudited)	Year ended June 2000 (audited)
Cash flows from operating activities:			
Loss for the year	\$ (1,598,996)	\$ (1,366,155)	\$ (1,690,408)
Items not involving cash:			
Amortization	113,955	9,588	49,600
Common shares issued for services received	-	573,453	573,452
Change in non-cash working capital:			
(Increase) decrease in tax credits recoverable	(109,982)	(126,516)	(431,750)
(Increase) decrease in GST receivable	41,640	(109,390)	(94,442)
(Increase) decrease in accounts receivable	9,839	(1,166)	(9,839)
(Increase) decrease in prepaid expense and other receivables	(38,818)	13,273	19,264
Increase (decrease) in accounts payable and accrued liabilities	(70,868)	(23,211)	(91,990)
	<u>(1,653,230)</u>	<u>(1,030,124)</u>	<u>(1,676,113)</u>
Cash flows used in financing activities:			
Issue of common shares, net of issue costs	2,509,395	3,855,637	3,915,968
Issue of warrants, net of issue costs	-	-	23,920
Conversion of warrants	(13,925)	-	-
Proceeds from (repayments of) promissory note	(225,000)	(24,683)	(17,093)
	<u>2,270,470</u>	<u>3,830,954</u>	<u>3,922,795</u>
Cash flows from investing activities:			
Acquisition of capital assets, net of tax credits of \$103,199 (June 2000 - \$104,941)	(481,503)	(348,012)	(479,620)
	<u>(481,503)</u>	<u>(348,012)</u>	<u>(479,620)</u>
Increase (decrease) in cash and cash equivalents	135,737	2,452,818	1,767,062
Cash and cash equivalents, beginning of period	1,761,744	(5,318)	(5,318)
Cash and cash equivalents, end of year	<u>\$ 1,897,481</u>	<u>\$ 2,447,500</u>	<u>\$ 1,761,744</u>

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 March 31, 2001 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, 2000.

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, 2000. The results of operations for the nine-month period ended March 31, 2001 are not necessarily indicative of the results for the full year.

## 2. Re-classification

A portion of research and development and general and administrative expenses, for the year ended June 30, 2000, have been re-classified to reflect adjustments identified during the tax filing process.

## 3. Loss per Share

Loss per share is computed by dividing the net income or loss for the period by the weighted average number of common shares outstanding during the period.

## 4. Share Capital

## a. Common Shares and Warrants

During the quarter ended March 31, 2001, no additional shares or warrants were issued. In the second quarter, 490,000 warrants were converted to common shares. Each warrant entitled the bearer to one share at a price of \$1.00 per share. The warrants were converted for a net amount of \$490,000. This conversion, together with the Class B warrants converted in the first quarter has resulted in a total net amount of \$2,508,395.

## b. Stock Option Plan

The Company's Stock Option Plan provides for the issuance of options to acquire up to 600,000 common shares. In addition, the Company has granted options to four senior officers and directors of the Company to purchase a total of 300,000 common shares.

## c. Stock Options

During the nine months ended March 31, 2001, Toxin granted 25,000 stock options to a consulting firm at a price of \$2.70.

At March 31, 2001 the Company had 520,000 stock options outstanding at an average exercise price of \$2.22. The options expire on December 31, 2002, January 5, 2003 and January 31, 2003. Of the stock options granted to the officers and directors 282,500 were outstanding on March 31, 2001. The exercise price of these options is \$1.00 and they expire on January 1, 2003.

## 5. Related Party Transactions

During the nine months ended March 31, 2001, the Company entered into the following transactions with investees, shareholders and directors:

	Total Expenses at March 31, 2001	Payable at March 31, 2001
Research and administrative service fees	\$ 197,366	\$ 67,904
Consulting services	\$ 135,000	\$ -
Interest expense	\$ 15,883	\$ -

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.



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## Quarter



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For the nine months ended March 31, 2001

## Message to the Shareholders

### To our Shareholders:

The third quarter of fiscal year 2001, ending March 31, 2001 was a period of continuing development of both the science and the commercialization of the company's Toxin Guard™ product. Thanks to the increasing sophistication of our discussions with potential partners, we have been able to refine our search for a commercially viable “freshness and safety test” product.

Because of a lack of clear standards - principally in the U.S.A - for allowable levels of pathogens in foods, a test designed solely to detect pathogenic bacteria faces significant commercial hurdles. Several potential commercial partners have instead expressed an interest in freshness as a first application of our technology. Some of them have conducted surveys showing that consumers prefer a combined “freshness and safety test” – a finding supported by our Scientific Advisory Board.

In pursuing this idea, we developed an antibody with an affinity for Pseudomonas (a food spoilage bacteria), which is also cross-reactive to Salmonella and E-coli O157:H7. We use this antibody in conjunction with our existing Listeria antibody (which is cross-reactive to Streptococcus and Staphylococcus) to present a combined “freshness and safety test”.

We have quantities of bioreactor-produced Listeria antibodies on hand, and we are beginning to produce the Pseudomonas antibody at our Guelph facility. We have expressed Listeria antibodies in tobacco plants successfully, so we have proved the principle of Listeria plantibody production. While it is not in the final form or at levels suitable for commercial production yet, we have made significant progress in the plantibody program, and will be able to produce these when necessary.

Our relationship with the University of Guelph continues to grow. As mentioned, our plantibody program is proceeding smoothly. We have just renewed for two more years our support of the research being conducted by Dr. Mansel Griffiths in the areas of food safety, packaging ecology, and assay development. The food safety research concerns the interaction between packaging material and the food it contains. The packaging ecology research looks into the behaviour of the antibodies on packaging film. And the assay development focuses on antibodies that can detect and capture the microorganisms they're designed to test for.

It is our intention to begin trials of printing antibody solutions upon polyethylene films using commercial flexographic equipment in May. Discussions we have had with film producers make us confident about this schedule. This is an important step in taking our working tests from the laboratory to commercial production.

At this time, we have proposals in the hands of potential commercial partners. While we are hopeful of an early arrangement, we cannot predict exactly when an agreement will be reached with our first strategic partner. Interest in our science and our proposed products remains keen worldwide, and we have seen no signs of any product that would compete with Toxin Guard™.

Our finances remain adequate to our mission, and current resources should be adequate for all developmental activities until significant revenues are generated through commercialization.

On behalf of the management team of Toxin Alert, I thank you for your continuing support.

Respectfully submitted,

**G. Montegu Black**  
Chairman  
Toxin Alert Inc.

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

### Financial Highlights

For the nine months ended March 31, 2001, the Company recorded a loss of \$1,598,996, or \$0.24 per share, compared to a loss of \$1,366,155 or \$0.38 per share, for the nine months ended March 31, 2000.

Revenue for the nine months ended March 31, 2001 totals \$109,854, this is an increase of \$35,979, over the same period last year. Revenues for the current period resulted from the following: (a) service fees \$900, and (b) interest income of \$108,954.

Research and development expenditures for the nine months ended March 31, 2001, increased by \$72,073 to \$836,301, before consideration of tax credits, as compared with \$764,228 for the prior period. The increase in expenses is attributable to hiring of scientific staff and the scale up of the research facility at the University of Guelph.

Investment tax credits have increased to \$96,801 for the nine months ended March 31, 2001 as compared to \$76,676 for the nine months ended March 31, 2001. This increase is a direct result of the additional research and development expenditures.

General and administrative expenses increased by \$112,505 to \$855,395 for the nine months ended March 31, 2001 as compared to \$742,890 for the nine months ended March 31, 2000. The increase is a result of additional administrative staff and additional activity in investor relations.

Amortization of capital assets for the nine months ended March 31, 2001 and 2000, increased to \$113,955 from \$9,588. This reflects an increase in capital expenditures, of \$476,131, in connection to the creation of the research facilities at the University of Guelph.

## Balance Sheets

	As at March 31, 2001 (unaudited)	As at June 30, 2000 (audited)
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 1,897,481	\$ 1,761,744
Accounts receivable	-	9,839
GST receivable	66,424	108,064
Prepaid expenses and other receivables	59,559	20,741
Investment tax credit recoverable	653,247	543,265
	<b>2,676,711</b>	<b>2,443,653</b>
<b>Capital assets</b>		
	<b>808,116</b>	<b>440,572</b>
	<b>\$ 3,484,827</b>	<b>\$ 2,884,225</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 196,602	\$ 267,474
Promissory note	-	225,000
	<b>196,602</b>	<b>492,474</b>
<b>Shareholders' equity</b>		
Share capital	7,068,840	4,573,370
March 31, 2001 - 7,353,110		
June 30, 2000 - 5,470,610		
Deficit	(3,780,615)	(2,181,619)
	<b>3,288,225</b>	<b>2,391,751</b>
	<b>\$ 3,484,827</b>	<b>\$ 2,884,225</b>

See accompanying notes

## Statements of Profit and Loss

	Three Months ended Mar. 31, 2001 (unaudited)	Three Months ended Mar. 31, 2000 (unaudited)	Nine Months ended Mar. 31, 2001 (unaudited)	Nine Months ended Mar. 31, 2000 (unaudited)
<b>Revenue</b>				
Revenue	\$ -	\$ 14,500	\$ 900	\$ 24,500
Interest Income	30,830	33,873	108,954	49,375
<b>Total revenue</b>	<b>30,830</b>	<b>48,373</b>	<b>109,854</b>	<b>73,875</b>
<b>Expenses</b>				
Salaries and benefits	64,645	40,193	219,800	105,127
Lab supplies and services	54,354	65,746	162,141	71,826
Research funding	120,443	167,777	295,715	474,582
Miscellaneous costs	70,143	15,239	158,645	112,693
Total research and development	309,585	288,955	836,301	764,228
Less: Investment tax credit	-	(15,000)	(96,801)	(76,676)
	<b>309,585</b>	<b>273,955</b>	<b>739,500</b>	<b>687,552</b>
Salaries and benefits	46,270	-	139,758	-
Professional fees	178,737	252,373	549,871	643,190
Miscellaneous costs	52,449	51,868	165,766	99,700
Total general and administration	277,456	304,241	855,395	742,890
<b>Amortization</b>	<b>38,543</b>	<b>9,133</b>	<b>113,955</b>	<b>9,588</b>
<b>Total expenses</b>	<b>625,584</b>	<b>587,329</b>	<b>1,708,850</b>	<b>1,440,030</b>
<b>Loss for the period</b>	<b>594,754</b>	<b>538,956</b>	<b>1,598,996</b>	<b>1,366,155</b>
Deficit beginning of period	3,185,861	1,318,410	2,181,619	491,211
Deficit end of period	<b>\$ 3,780,615</b>	<b>\$ 1,857,366</b>	<b>\$ 3,780,615</b>	<b>\$ 1,857,366</b>
Loss per common share	\$ 0.08	0.10	0.24	0.38
Weighted average number of common shares outstanding	7,353,110	5,286,076	6,773,941	3,575,123

See accompanying notes