



TOXIN GUARD™  
TECHNOLOGY

# ToxinAlert Inc.

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## MESSAGE TO THE SHAREHOLDERS

### To our Shareholders:

During the third quarter of fiscal 2002, ended March 31, 2002, Toxin Alert remained on track with the commercialization of its first tests for food safety and freshness. Toxin Alert continues to optimize its *Salmonella* and *Pseudomonas* tests. To assist in this process, the company has acquired its own peptide synthesis equipment, giving it greater control over the development and production of peptides along with the antibodies. This capability allows Toxin Alert to be less dependent on third parties and puts us in a better position to manage our timelines.

Toxin's technology and resource base continues to grow. It now consists of 15 antibodies, including those for *Pseudomonas*, *Listeria*, *Salmonella*, *E coli* 0157:H7 and others. Plantibody research funded by Toxin Alert and led by Dr. Chris Hall at the University of Guelph, continues to flourish as the total number of antibodies capable of being produced in plants has now reached six.

Early in the quarter, Toxin Alert announced the allowance of two additional U.S. patents, which were then formally issued subsequent to the end of the quarter on April 23, 2002 and April 30, 2002. These patents further enhance the protection of Toxin Alert's initial patent, U.S. Patent No. 6,051,388. The two additional patents provide more specific coverage for a broader range of flexible packaging material, alternative food containment embodiments, such as resealable bags and specific sources of antibodies such as plantibodies.

Toxin Alert is focused on finalizing the development of its first products over the next several months. These efforts are proving to be fruitful, as third parties are expressing increasing interest in performing print tests. Toxin has been organizing and over the next few months plans to jointly conduct high speed printing trials with three different packaging companies.

With the addition of two commercial scale bioreactors last quarter, revenues from the sale of antibodies have increased and we expect this to continue. The company is building its customer base and receiving repeat orders.

At March 31, 2002, the company had a cash position of approximately \$640,000 and refundable tax credits of about \$700,000. The Federal government's review of the year ended June 30, 2001, has now been completed and a refund is expected before the end of the current fiscal year. This would leave Toxin Alert with less than 12 months' cash requirements on hand at the current rate of expenditure. In the absence of any significant revenues from commercialization, Toxin will need to return to the capital markets before the end of the calendar year.

Toxin Alert remains committed to commercializing its scientific developments and recognizing revenues to improve shareholder value. We are grateful for your continued support and are looking 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 CONDITION AND RESULTS OF OPERATIONS

This discussion and analysis covers Toxin Alert Inc.'s ("Toxin" or the "Company") interim financial statements for the three and nine-month periods ended March 31, 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, 2001 Annual Report. This discussion and analysis should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section and the annual financial statements contained in the Company's 2001 Annual Report. All amounts following are expressed in Canadian dollars unless otherwise indicated.

### Results of Operations

The Company's third quarter loss from operations was \$464,446, or \$0.06 per share, compared with a loss of \$594,754 or \$0.08 per share, during the same period a year ago. For the nine months ended March 31, 2002, the Company recorded a loss of \$1,488,750 or \$0.20 per share, compared to \$1,598,996, or \$0.24 per share, for the nine months ended March 31, 2001. Revenues for the three months ended March 31, 2002 totalled \$32,887, an increase of 6.7% over the \$30,830 received for the same period a year ago. Revenues for the nine months ended March 31, 2002 totalled \$97,671, a decrease of 11.1% over the \$109,854 received for the same period a year ago. Revenues for the current period resulted from the following: (a) sale of antibodies - \$65,735, and (b) interest income - \$31,936. The decrease in revenue is associated with a reduction in interest income resulting from decreased cash balances. The decrease is partially offset by the increase in the sale of antibodies.

Research and development expenditures for the three months ended March 31, 2002, totalled \$229,887 before consideration of investment tax credits, as compared to \$309,585 during the same period in 2001. Research and development expenditures for the nine months ended March 31, 2002, decreased by \$32,547 to \$803,754 before consideration

of investment tax credits, as compared to \$836,301 in the same period ending March 31, 2001. The change is directly related to a decrease in research work, which was being performed by SynX Pharma Inc ("SynX"). Now that the Company's research lab in Guelph is fully operational the requirement for SynX's services has diminished.

Investment tax credits have increased to \$241,000 for the nine months ended March 31, 2002 as compared to \$96,801 for the nine months ended March 31, 2001.

General and administrative expenses for the three months ended March 31, 2002, totalled \$278,253, as compared to \$277,456 during the same period a year ago. General and administrative expenses, for the first nine months ended March 31, 2002, increased by \$30,541 to \$885,936 from \$855,395 for the same period a year ago. The increase reflects the addition of a full-time administrative employee.

Amortization of capital assets for the three months ended March 31, 2002, increased by \$19,528 to \$58,071, compared with amortization of \$38,543 during the same period a year ago. Amortization of capital assets for the nine months ended March 31, 2002, increased by \$23,776 to \$137,731, compared with amortization of \$113,955 during the same period a year ago. This reflects an increased investment in capital equipment. The majority of the equipment purchased over the last 18 months relates to the expansion of the research lab facility at the University of Guelph, which now includes 12 large-scale bioreactors and 6 small-scale bioreactors.

#### **Liquidity and Capital Resources**

As at March 31, 2002, the Company had working capital of approximately \$1.2 million with cash resources totaling approximately \$0.6 million. The Company's cash decreased by approximately \$1.1 million during the nine months ended March 31, 2002. The decrease relates directly to operating activity.

As at March 31, 2002, Toxin Alert had \$709,622 of refundable tax credits due, of which \$440,000 relates to the year ended June 30, 2001. The Company anticipates collecting the refundable tax credit due pending the outcome of the review of Toxin's claims by tax authorities. The review by the Federal government, of the year ended June 30, 2001, has now been completed. A refund of \$395,000 is expected before the end of the current fiscal year. The provincial government has now received the Federal audit report and therefore we anticipate their refund to follow shortly after the Federal refund.

Management expects that existing cash reserves and cash resources,

including refundable investment tax credits, are sufficient to sustain operations beyond the end of the current fiscal year. The Company is currently exploring several additional financing options.

#### **Outlook**

Research activities continue to expand the Company's intellectual property portfolio. This is evidenced by the issuance, in April 2002, of two additional U.S. patents.

The Company continues to pursue commercialization activities. Financial results, for the nine months ended March 31, 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.

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 patents pending will offer protection against competition, or will not be designed around or infringed upon by others.

## INTERIM FINANCIAL STATEMENTS

## BALANCE SHEETS

	As at March 31 2002 (unaudited)	As at June 30 2001 (audited)
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 643,198	\$ 1,783,982
Investment tax credit recoverable	709,622	440,000
GST receivable	-	64,065
Accounts receivable	13,121	41,837
Prepaid expenses and other receivables	78,149	143,973
	<u>1,444,090</u>	<u>2,473,857</u>
<b>Capital assets</b>	<u>665,868</u>	<u>707,774</u>
	<u>2,109,958</u>	<u>3,181,631</u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	212,251	152,874
Deferred revenue	7,700	-
	<u>219,951</u>	<u>152,874</u>
<b>Shareholders' Equity</b>		
Share capital		
March 31, 2002 - 7,658,110	7,443,840	7,093,840
June 30, 2001 - 7,378,110		
Deficit	<u>(5,553,833)</u>	<u>(4,065,083)</u>
	<u>1,890,007</u>	<u>3,028,757</u>
	<u>\$ 2,109,958</u>	<u>\$ 3,181,631</u>

## STATEMENTS OF PROFIT AND LOSS

	Three Months ended Mar. 31, 2002 (unaudited)	Three Months ended Mar. 31, 2001 (unaudited)	Nine Months ended Mar. 31, 2002 (unaudited)	Nine Months ended Mar. 31, 2001 (unaudited)
<b>Revenue</b>				
Revenue	\$ 29,243	\$ -	\$ 65,735	\$ 90
Interest income	3,644	30,830	31,936	108,954
<b>Total revenue</b>	<b>32,887</b>	<b>30,830</b>	<b>97,671</b>	<b>109,854</b>
<b>Expenses</b>				
<b>Research &amp; Development</b>				
Salaries and benefits	54,129	64,645	209,167	219,800
Lab supplies & services	54,967	54,354	220,040	162,141
Research funding	81,320	120,443	198,293	295,715
Professional fees	30,101	47,836	140,566	108,595
Miscellaneous costs	9,370	22,307	35,688	50,050
Total research and development	229,887	309,585	803,754	836,301
Less: Investment tax credits	(68,878)	-	(241,000)	(96,801)
	161,009	309,585	562,754	739,500
<b>General &amp; Administrative</b>				
Salaries and benefits	59,706	46,270	198,037	139,758
Professional fees	158,672	178,737	529,701	549,871
Miscellaneous costs	59,875	52,449	158,198	165,766
Total general and administration	278,253	277,456	885,936	855,395
<b>Amortization</b>	<b>58,071</b>	<b>38,543</b>	<b>137,731</b>	<b>113,955</b>
<b>Total expenses</b>	<b>497,333</b>	<b>625,584</b>	<b>1,586,421</b>	<b>1,708,850</b>
<b>Loss for the period</b>	<b>464,446</b>	<b>594,754</b>	<b>1,488,750</b>	<b>1,598,996</b>
Deficit beginning of period	5,089,387	3,185,861	4,065,083	2,181,619
Deficit end of period	5,553,833	3,780,615	5,553,833	3,780,615
Loss per common share	0.06	0.08	0.20	0.24
Weighted average number of common shares outstanding	7,658,110	7,353,110	7,612,292	6,773,941

See accompanying notes

## STATEMENT OF CASHFLOWS

	Three Months ended Mar 31, 2002 (unaudited)	Three Months ended Mar. 31, 2001 (unaudited)	Nine Months ended Mar. 31, 2002 (unaudited)	Nine Months ended Mar. 31, 2001 (unaudited)
<b>Cash flows from operating activities:</b>				
Loss for the period	\$ (464,446)	\$ (594,754)	\$ (1,488,750)	\$ (1,598,996)
<b>Items not involving cash:</b>				
Amortization	58,071	38,543	137,731	113,955
<b>Change in non-cash working capital:</b>				
(Increase) decrease in tax credits recoverable	(68,878)	-	(269,622)	(109,982)
(Increase) decrease in GST receivable	14,968	110,256	64,065	41,640
(Increase) decrease in accounts receivable	(9,198)	-	28,716	9,839
(Increase) decrease in prepaid expense and other receivables	(1,835)	(5,692)	65,824	(38,818)
Increase (decrease) in accounts payable and accrued liabilities	(235,423)	(375,727)	67,074	(70,868)
	(706,741)	(827,374)	(1,394,962)	(1,653,230)
<b>Cash flows from financing activities:</b>				
Issue of common shares, net of issue costs	-	-	350,000	2,509,395
Conversion of options	-	-	-	(13,925)
Proceeds from (repayments of) promissory note	-	(225,000)	-	(225,000)
	-	(225,000)	350,000	2,270,470
<b>Cash flows from investing activities:</b>				
Acquisition of capital assets	-	(6,647)	(95,822)	(481,503)
	-	(6,647)	(95,822)	(481,503)
Increase (decrease) in cash and cash equivalents	(706,741)	(1,059,021)	(1,140,784)	135,737
Cash and cash equivalents, beginning of period	1,349,939	2,956,502	1,783,982	1,761,744
Cash and cash equivalents, end of period	643,198	1,897,481	643,198	1,897,481
<b>Supplemental cashflow information</b>				
Interest paid	248	2,243	297	15,883
Interest received	3,644	30,830	31,936	108,954

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, 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, 2001, except for the calculation of loss per share as described below.

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, 2001. The results of operations for the nine-month period ended March 31, 2002 are not necessarily indicative of the results for the full year.

During the first quarter, the Company adopted, on a retroactive basis, the new recommendations of The Canadian Institute of Chartered Accountants with respect to the calculation of loss per share. Under the new recommendations, the treasury stock method is to be used, instead of the current imputed earnings approach, for determining the effect of all dilutive elements. There are no retroactive adjustments to these financial statements resulting from adopting this new standard because there are no dilutive elements under either standard.

### 2. Going Concern

These financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that the Company will realize the carrying value of its assets and satisfy its obligations and commitments as they become due in the normal course of operations. The ability of the Company to continue in this manner is dependent on the future outcome of the Company's research and development program and the Company's ability to fund its future requirements.

If the going concern assumptions were not appropriate for these financial statements, then adjustments would be necessary in the carrying values of assets and liabilities, the reported loss for the period 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 March 31, 2002, no additional shares or warrants were issued. In the first quarter, the underwriter exercised all the compensation options to purchase 140,000 Class B units. Each unit consisted of one common share of the company and one Class B share purchase warrant. Each Class B warrant entitled the holder to purchase one common share at a price of \$1.50. Total proceeds were \$140,000. After exercising the options the underwriter then converted the 140,000 Class B warrants to 140,000 common shares for total proceeds of \$210,000. At March 31, 2002, there were 500,000 common share purchase warrants and 999,510 Class A warrants outstanding.

#### b. Stock Option Plan

At the annual meeting of shareholders it was resolved to increase the amount of stock options available to be issued by 600,000 options to a total of 1,200,000 options. The second plan, which granted options to four senior officers and directors of the Company, remains the same at a total of 300,000 common shares.

#### c. Stock Options

During the nine months ended March 31, 2002, Toxin granted 223,000 stock options to various employees, consultants and directors. No options were exercised during this period.

At March 31, 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 March 31, 2002. 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, 2002, the Company entered into the following transactions with shareholders and directors:

	Nine-Month Revenue (Expense) At Mar. 31, 2002	Nine-Month Revenue (Expense) At Mar. 31, 2001
Research fees and reagent sales	\$ 61,174	\$ -
Research and administrative expenses	\$ (53,281)	\$ (197,366)
Consulting services	\$ (233,846)	\$ (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.

#### New Address

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