

Interim Consolidated Financial Statements
(Unaudited)

GeneNews Limited

Three and Nine-month Periods Ended September 30, 2008

GeneNews Limited

Three and Nine-month Periods Ended September 30, 2008

TO OUR SHAREHOLDERS

The accompanying unaudited interim consolidated financial statements of GeneNews Limited (the "Company") have been prepared by, and are the responsibility of, the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

GeneNews Limited

CONSOLIDATED BALANCE SHEETS

[Unaudited]

[Expressed in Canadian dollars]

As at

	September 30 2008 \$	December 31 2007 \$
ASSETS		
Current		
Cash and cash equivalents <i>[note 6]</i>	3,222,848	11,279,030
Short-term investment	400,000	400,000
Accounts receivable	665,247	1,582,242
Investment tax credits recoverable <i>[note 7]</i>	220,265	1,038,199
Prepaid expenses and deposits	274,186	512,914
Total current assets	4,782,536	14,812,385
Property, plant and equipment, net	3,590,472	3,635,245
Intellectual property, net	71,473	400,380
	8,444,481	18,848,010
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	1,619,301	1,699,153
Deferred revenue	723,124	1,204,305
Current portion of long-term debt <i>[note 8]</i>	1,191,784	585,903
Total current liabilities	3,534,209	3,489,361
Long-term debt	565,134	1,280,916
Long-term portion of deferred revenue	---	401,371
Total liabilities	4,099,343	5,171,648
Shareholders' equity		
Capital stock <i>[note 9]</i>	44,542,029	44,290,930
Contributed surplus	3,648,476	2,733,562
Deficit	(43,845,367)	(33,348,130)
Total shareholders' equity	4,345,138	13,676,362
	8,444,481	18,848,010

GeneNews Limited

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

[Unaudited]

[Expressed in Canadian dollars]

	Three months ended September 30 2008	Three months ended September 30 2007	Nine months ended September 30 2008	Nine months ended September 30 2007
Revenue				
Milestones	\$ 299,828	\$ 189,162	\$ 882,552	\$ 1,855,398
Laboratory service sales	6,000	0	6,000	0
Cost of laboratory service sales	3,288	0	3,288	0
Gross margin on sales	2,712	0	2,712	0
Total net revenue	302,540	189,162	885,264	1,855,398
Expenses				
Research and development	2,647,640	2,362,671	7,877,621	6,802,402
Marketing and selling	319,329	0	319,329	0
General and administrative	725,969	746,572	2,045,204	1,983,582
Stock-based compensation	420,376	123,917	914,914	402,103
Amortization of intellectual property	110,537	110,537	331,611	331,611
Interest on long term debt	29,554	7,145	88,254	11,335
	4,253,405	3,350,842	11,576,933	9,531,033
Interest income	34,738	149,451	194,432	690,637
Net/comprehensive loss for the period	(3,916,127)	(3,012,229)	(10,497,237)	(6,984,998)
Deficit, beginning of period	(39,929,240)	(27,686,855)	(33,348,130)	(23,714,086)
Deficit, end of period	\$ (43,845,367)	\$ (30,699,084)	\$ (43,845,367)	\$ (30,699,084)
Net/comprehensive loss per common share				
Basic and fully diluted	\$ (0.07)	\$ (0.05)	\$ (0.19)	\$ (0.13)
Weighted average number of common shares outstanding				
Basic and fully diluted	56,207,176	55,450,571	56,213,363	55,444,238

GeneNews Limited

CONSOLIDATED STATEMENTS OF CASH FLOWS

[Unaudited]

[Expressed in Canadian dollars]

	Three months ended September 30 2008	Three months ended September 30 2007	Nine months ended September 30 2008	Nine months ended September 30 2007
Cash flows provided by (used in):				
Operations:				
Net and comprehensive loss for the period	\$ (3,916,127)	\$ (3,012,229)	\$ (10,497,237)	\$ (6,984,998)
Items therein not requiring cash				
Stock based compensation	420,376	123,917	914,914	402,103
Amortization of capital assets	229,962	(279,277)	588,326	(104,415)
Amortization of intellectual property	110,537	110,537	331,611	331,611
	<u>(3,155,252)</u>	<u>(3,057,052)</u>	<u>(8,662,386)</u>	<u>(6,355,699)</u>
Changes in non-cash working capital:				
Accounts receivable	55,512	(1,823,774)	916,995	(2,135,480)
Investment tax credit recoverable	(49,778)	-	817,944	-
Prepaid expenses and deposits	181,144	207,770	238,728	449,440
Accounts payable and accrued liabilities	(62,834)	139,370	(79,852)	260,088
Deferred revenue	(299,829)	1,265,338	(882,552)	1,797,038
	<u>(3,331,037)</u>	<u>(3,268,348)</u>	<u>(7,651,123)</u>	<u>(5,984,613)</u>
Financing:				
Proceeds from exercise of employee stock options	-	-	251,100	25,459
Payments on long term debt	178,255	356,357	(109,901)	280,956
	<u>178,255</u>	<u>356,357</u>	<u>141,199</u>	<u>306,415</u>
Investments:				
Additions to capital assets	<u>(313,097)</u>	<u>(608,014)</u>	<u>(546,258)</u>	<u>(1,885,045)</u>
Increase (decrease) in cash and cash equivalents	<u>(3,465,879)</u>	<u>(3,520,005)</u>	<u>(8,056,182)</u>	<u>(7,563,243)</u>
Cash and cash equivalents, beginning of period	6,688,727	16,550,330	11,279,030	20,593,568
Cash and cash equivalents, end of period	<u>\$ 3,222,848</u>	<u>\$ 13,030,325</u>	<u>\$ 3,222,848</u>	<u>\$ 13,030,325</u>
Supplemental cash flow information:				
Interest received	40,905	137,450	164,862	457,883
Interest paid	29,544	7,145	88,254	11,335

GeneNews Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Unaudited]

[Expressed in Canadian dollars unless otherwise noted]

September 30, 2008

1. DESCRIPTION OF BUSINESS

GeneNews Limited is incorporated under the laws of the Province of Ontario. The Company is focused on the application of functional genomics to enable early diagnosis and personalized health management based on disease-specific biomarkers.

The Company considers that its current operations fall principally into one industry segment, biomedical research. Substantially all of its identifiable assets are located in Canada.

2. BASIS OF PRESENTATION

The basis of consolidation used to prepare these consolidated financial statements is the same as that described in note 2 to the audited consolidated financial statements for the year ended December 31, 2007.

These consolidated 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. [See note 3 [a], *Going Concern Uncertainty*]

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are expressed in Canadian dollars and have been prepared by management in accordance with Canadian generally accepted accounting principles applied on the same basis as used in the preparation of the Company's most recent audited consolidated financial statements for the year ended December 31, 2007 and described in note 2 thereto, except as described below:

[a] Going Concern Uncertainty:

Effective January 1, 2008 the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants [CICA] Handbook Section 1400, *General Standards of Financial Statement Presentation* requiring in Section 1400.08A that management make an assessment of the Company's ability to continue as a going concern. Management has assessed the Company's ability to continue as a going concern and determined that it is appropriate for these consolidated financial statements be prepared on the going concern basis. Management has no intention of liquidating or ceasing to trade since in its assessment, 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.

GeneNews Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Unaudited]

[Expressed in Canadian dollars unless otherwise noted]

September 30, 2008

There are material uncertainties related to events or conditions that may cast doubt upon the Company's ability to continue as a going concern. The Company has incurred an accumulated deficit of \$43,845,367 as of September 30, 2008, expects to incur additional losses in its operations and will require additional financial resources to continue its research and achieve commercialization of its discoveries. The Company's plan to address the expected shortfall of working capital is to secure additional funding before the end of the year and continue to pursue commercial activities to generate operating revenue. There is no certainty that the Company will be able to obtain sources of financing on acceptable terms, or at all, nor is there certainty that the current commercial activities nor the future outcome of the Company's research programs will produce product revenue from commercial activities to the extent necessary. A failure to continue as a going concern would then require that the stated amounts of assets and liabilities be reflected on a liquidation basis which could differ materially from the going concern basis.

[b] Capital Disclosures:

Effective January 1, 2008 the Company adopted the new recommendations of the CICA Handbook Section 1535, *Capital Disclosures* which requires an entity to disclose information concerning its objectives, policies and processes for managing capital; qualitative data about what the entity regards as capital; whether the entity has complied with any capital requirements, and if it has not complied, the consequences of such non-compliance. The disclosures recommended by Section 1535 are contained in note 4 of these financial statements.

[c] Financial Instrument Disclosure and Presentation:

Effective January 1, 2008 the Company adopted the new recommendations of the CICA Handbook Section 3862, *Financial Instrument – Disclosure* and Section 3863, *Financial Instruments – Presentation* which require the entity to provide disclosures in their financial statements that emphasize the significance of financial instruments to its financial position and performance, the nature and extent of risks arising from financial instruments and how these risks are managed. The adoption of these standards had no impact on the classification and valuation of the Company's financial instruments. The disclosures recommended by these two sections are contained in note 5 of these financial statements.

GeneNews Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Unaudited]

[Expressed in Canadian dollars unless otherwise noted]

September 30, 2008

[d] Accounting Policies not yet adopted

[i] International Financial Reporting Standards

The CICA plans to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011. The impact of the transition to IFRS on the Company's financial statements is not yet determinable.

[ii] Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, *Goodwill and Intangible Assets* which will replace Sections 3062 and 3450 currently in effect. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard is effective for the Company's interim and annual financial statements beginning on January 1, 2009. The Company is currently assessing the impact of the adoption of this new Section on its consolidated financial statements.

4. CAPITAL RISK MANAGEMENT

The Company's objective when managing capital is to safeguard its accumulated capital in order to maintain its ability to continue as a going concern with the objective of providing returns to shareholder and benefits to other stakeholders. The capital structure of the Company consists of capital and equity comprised of share capital, broker warrants, contributed surplus and deficit.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. Upon approval of the Board of Directors, the Company balances its overall capital structure through new share or debt issuances or by undertaking other activities as deemed appropriate in the circumstances. Other than certain restrictive covenants found in capital lease obligations that the Company is a party to, the Company is not subject to externally imposed capital requirements.

The Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2007.

GeneNews Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Unaudited]

[Expressed in Canadian dollars unless otherwise noted]

September 30, 2008

5. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

[a] Financial instruments

The Company has classified its financial instruments as follows:

	September 30 2008	December 31 2007
	\$	\$
<hr/>		
<u>Financial assets</u>		
Cash, held for trading, measured at fair value	2,078,980	6,152,694
Cash equivalents, held-to-maturity, recorded at fair value	1,143,868	5,126,336
Short-term investments, held-to-maturity, recorded at fair value	400,000	400,000
Receivables, measured at cost	885,502	2,620,441
<u>Financial liabilities</u>		
Accounts payable and accrued liabilities, measured at cost	1,619,301	1,699,153
Short and long-term debt, measured at cost	1,756,918	1,866,819
<hr/>		

The Company had no available-for-sale financial instruments or embedded derivatives during the three-month period ended September 30, 2008 or for the year ended December 31, 2007.

[b] Financial risk management

The Company has exposure to credit risk, liquidity risk and market risk. The Company's Board of Directors has the overall responsibility for the oversight of these risks and reviews the Company's policies on an ongoing basis to ensure that these risks are appropriately managed.

[i] Credit risk

The use of financial instruments may lead to a credit risk that corresponds to the risk of financial loss resulting from a counter-party's inability or refusal to completely fulfill their contractual obligations. The Company's risk management policies include the assignment of risk ratings as well as a level of authorization according to the rating and the amount of the financial instrument placed with Schedule 1 banks in secured bank deposits. Consequently, the Company manages credit risk in accordance with established investment policies. The Company establishes investment policies that are regularly reviewed, updated and approved by the Board of Directors. These policies define the credit risk limits according to the characteristics of the counter-parties.

GeneNews Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Unaudited]

[Expressed in Canadian dollars unless otherwise noted]

September 30, 2008

In respect of receivables, of which a significant amount is due from governments, the company has evaluated its debtors and found the credit risk to be acceptable without any need for a provision for doubtful accounts.

[ii] Liquidity risk

Liquidity risk represents the contingency that the Company is unable to gather the funds required to respect its financial obligations at the appropriate time and under reasonable conditions. The Company manages this risk so as to ensure that it has sufficient liquidity at all times to be able to honor its current and future financial obligations, in normal conditions and in exceptional circumstances. Financing strategies to ensure management of this risk include resorting to the capital markets, the issuance of equity or debt securities.

[iii] Market risk

Market risk corresponds to the risk that the value of a financial instrument fluctuates due to the variation of parameters underlying their valuation, including interest rates and exchange rates. The Company is subject to interest rate risk on its cash and cash equivalents but does not believe that the results of operations or cash flows would be affected to any significant degree by a sudden change in market interest rates owing to the short-term nature of the investments.

Financial instruments potentially exposing the Company to foreign exchange risk consist principally of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. The Company manages foreign exchange risk by holding US currency receipts in US currency bank accounts to support US expenditures. The Company believes that the results of operations and cash flows would be affected by a sudden change in foreign exchange rates, but that any change would not impair the Company's ability to meet its US-denominated obligations.

GeneNews Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Unaudited]

[Expressed in Canadian dollars unless otherwise noted]

September 30, 2008

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following:

	September 30 2008	December 31 2007
	\$	\$
Cash	2,078,980	6,152,694
Cash equivalents	1,143,868	5,126,336
	3,222,848	11,279,030

Included in cash at September 30, 2008 are amounts denominated in US dollars in the amount of US\$14,079 (December 31, 2007 – US\$39,178) and amounts denominated in Malaysian Ringgits in the amount of RM3,156,300 (December 31, 2007 – RM433,706).

At September 30, 2008 cash equivalents consist of highly liquid bankers' acceptances and term deposits with maturity dates ranging from October 20, 2008 to April 20, 2009 and interest rates ranging from 3% to 4%.

7. INVESTMENT TAX CREDITS RECOVERABLE

The Company's current and capital expenditures are eligible as scientific research and experimental development [SR&ED] expenditures. The Company earns non-refundable federal tax credits at the rate of 20% on the eligible current and capital SR&ED expenditures, which can be utilized against federal income taxes otherwise payable. In addition, the Company is eligible for the Ontario Innovation Tax Credit [OITC] at the rate of 10% of SR&ED expenditures to a refundable annual limit of \$200,000.

At September 30, 2008 the Company has a balance of \$220,255 (December 31, 2007 - \$1,038,199) of refundable investment tax credits. The amount of investment tax credits ultimately received by the Company is subject to review by the particular taxation authorities for the technical and financial aspect of the tax credits claimed.

The Company also receives government assistance by way of contributions from the National Research Council's Industrial Research Assistance Program [IRAP]. The currently approved IRAP extends until July 17, 2009 and supports up to \$496,819 of the labour cost of research and development into developing a molecular assay for the detection of advanced adenomatous polyps. During the nine-month period ended September 30, 2008 the Company received \$166,847 from the IRAP.

Refundable OITC and IRAP contributions are credited to research and development expense when claimed.

GeneNews Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Unaudited]

[Expressed in Canadian dollars unless otherwise noted]

September 30, 2008

8. CURRENT PORTION OF LONG TERM DEBT

The Company relocated to expanded leased facilities in September 2007. The capital cost of leasehold improvements, office and laboratory equipment acquired as a result of the move were principally financed by two debt transactions. First, the Company entered into a 36-month 6.99% capital lease (Capital Lease I) for leasehold improvements and furniture and equipment amounting to \$1,499,990 with its bank. Secondly, the landlord of the Company's new facility provided a \$400,000 5-year loan at 8% to finance leasehold improvements (Landlord Loan). In May 2008, the Company secured an additional capital lease (Capital Lease II) of \$350,000 under similar terms as Capital Lease I to finance the cost of the clinical reference laboratory used to perform the ColonSentry test.

The agreement between the Company and its bank in regard to Capital Lease I contains a restrictive covenant requiring the Company to maintain a minimum cash balance of \$4.5 million. At September 30, 2008, the Company did not meet this minimum cash requirement. As a result, pursuant to the terms of the agreement the lender can require the Company to pay the remaining portion of the lease obligation at any time. Accordingly, the debt has been reclassified as short-term debt on the balance sheet. See Note 10 "Subsequent Events".

9. CAPITAL STOCK

Authorized:

Unlimited non-voting preference shares, issuable in one or more series

Unlimited voting special shares, entitling the holder to a dividend, if and when declared by the Board of Directors, in parity with the common shares and convertible into common shares

Unlimited voting common shares

Included in capital stock are the following:

GeneNews Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Unaudited]

[Expressed in Canadian dollars unless otherwise noted]

September 30, 2008

[a] Common shares

The changes in common shares are as follows:

	#	\$
Balance at December 31, 2007	55,518,769	43,934,680
Expiry of broker warrants	-	356,250
Exercise of stock options	364,668	251,100
Balance at September 30, 2008	55,883,437	44,542,030

[b] Broker warrants

The changes in broker warrants are as follows:

	#	\$
Balance at December 31, 2007	625,000	356,250
Expiry of broker warrants	(625,000)	(356,250)
Balance at September 30, 2008	-	-
Total Capital Stock		44,542,030

GeneNews Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Unaudited]

[Expressed in Canadian dollars unless otherwise noted]

September 30, 2008

[c] Employee stock option plan

A summary of the status of the Plan as at September 30, 2008 and changes during the nine months then ended is presented below:

	Weighted average exercise price	
	#	\$
Outstanding, December 31, 2007	5,534,179	0.96
Granted	2,352,633	0.97
Exercised	(364,668)	0.69
Cancelled	(719,512)	0.81
Outstanding, September 30, 2008	6,802,632	0.99
Options exercisable, September 30, 2008	4,755,884	0.99

10. SUBSEQUENT EVENTS

As described in Note 8 above, the Company did not meet a minimum cash requirement with respect to a covenant found the agreement for Capital Lease I. The bank has agreed to tolerate the Company's breach and waive the covenant until December 1, 2008. The bank has also restricted cash on deposit equal to the entire outstanding amounts due under Capital Leases I and II. The current total amount of restricted cash is approximately \$1,668,000. The bank will continue to monitor the Company's progress in securing additional financing and will reassess the covenant on or about December 1, 2008.

On November 12, 2008, the Company announced that it had implemented a strategic restructuring of its operations. The Company's operation in Canada will focus on the Canadian and U.S. commercialization of its lead product, ColonSentry™, the world's first blood-based test to determine a person's current risk for colorectal cancer. The Company's activities to support pipeline research and development will be moved to GeneNews' Asian operations located in Penang, Malaysia and Tianjin, China as will local commercialization activities. As a result of the restructuring, the Company has reduced its workforce in Canada by approximately 40% and monthly expenditures will be substantially reduced over the near term to a level approximately equal to half of the current monthly expenditures.