

Consolidated Financial Statements

GeneNews Limited

December 31, 2007 and 2006

AUDITORS' REPORT

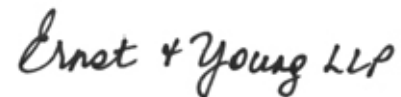
To the Shareholders of
GeneNews Limited

We have audited the consolidated balance sheets of **GeneNews Limited** as at December 31, 2007 and 2006 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,
March 20, 2008.



Chartered Accountants
Licensed Public Accountants

GeneNews Limited**CONSOLIDATED BALANCE SHEETS**

[See note 1 - Basis of Presentation]

[Expressed in Canadian dollars]

As at December 31

	2007	2006
	\$	\$
ASSETS [note 8]		
Current		
Cash and cash equivalents	11,279,030	20,593,568
Short-term investment [note 8]	400,000	—
Accounts receivable [note 3]	1,582,242	135,315
Investment tax credits recoverable [note 4]	1,038,199	796,900
Prepaid expenses and deposits	512,914	685,819
Total current assets	14,812,385	22,211,602
Property, plant and equipment, net [note 5]	3,635,245	1,645,488
Intellectual property, net [note 6]	400,380	842,528
	18,848,010	24,699,618
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	1,699,153	1,821,355
Deferred revenue [note 3]	1,204,305	—
Current portion of long-term debt [note 8]	585,903	102,549
Total current liabilities	3,489,361	1,923,904
Long-term debt [note 8]	1,280,916	—
Long-term portion of deferred revenue [note 3]	401,371	—
Total liabilities	5,171,648	1,923,904
Commitments and contingencies [notes 8 and 13]		
Shareholders' equity		
Capital stock [notes 9[a] and [b]]	44,290,930	44,234,409
Contributed surplus [note 9[c]]	2,733,562	2,255,390
Deficit	(33,348,130)	(23,714,085)
Total shareholders' equity	13,676,362	22,775,714
	18,848,010	24,699,618

See accompanying notes

On behalf of the Board:

Director

Director

GeneNews Limited**CONSOLIDATED STATEMENTS OF
OPERATIONS AND DEFICIT**

[Expressed in Canadian dollars]

Years ended December 31

	2007	2006
	\$	\$
REVENUE [note 3]		
Milestone revenue	1,666,236	567,850
Upfront payment revenue	501,476	2,112,323
Fees for services	—	603,095
	2,167,712	3,283,268
EXPENSES		
Research and development [notes 4, 10 and 11]	8,902,433	9,518,383
General and administrative [note 10]	2,655,651	1,889,675
Stock-based compensation [note 9[c]]	478,172	728,383
Amortization of intellectual property [note 6]	442,148	442,147
Foreign exchange loss	114,149	68,797
Interest on long-term debt	31,490	19,758
	12,624,043	12,667,143
Interest income	822,286	448,202
Net and comprehensive loss for the year	(9,634,045)	(8,935,673)
Deficit, beginning of year	(23,714,085)	(14,778,412)
Deficit, end of year	(33,348,130)	(23,714,085)
Net and comprehensive loss per common share		
Basic and fully diluted	\$(0.17)	\$(0.18)
Weighted average number of common shares outstanding		
Basic and fully diluted	55,453,018	49,045,966

See accompanying notes

GeneNews Limited

CONSOLIDATED STATEMENTS OF CASH FLOWS

[Expressed in Canadian dollars]

Years ended December 31

	2007	2006
	\$	\$
OPERATING ACTIVITIES		
Net and comprehensive loss for the year	(9,634,045)	(8,935,673)
Add items not involving cash		
Stock-based compensation [note 9(c)]	478,172	728,383
Loss on disposal of property, plant and equipment	15,587	—
Amortization of property, plant and equipment	504,762	389,639
Amortization of intellectual property [note 6]	442,148	442,147
	(8,193,376)	(7,375,504)
Changes in non-cash working capital balances related to operations		
Accounts receivable	(1,446,927)	1,221,077
Investment tax credits recoverable	(241,299)	458,022
Prepaid expenses and deposits	172,905	(320,104)
Accounts payable and accrued liabilities	(122,202)	891,518
Deferred revenue	1,605,676	(2,134,361)
Cash used in operating activities	(8,225,223)	(7,259,352)
FINANCING ACTIVITIES		
Net proceeds from share issue	56,521	23,896,716
Net proceeds from disposal of property, plant and equipment	364	—
Proceeds from exercise of employee stock options	—	165,410
Net proceeds from exercise of 2004 broker warrants	—	33,452
Proceeds of long-term debt	1,899,990	—
Repayment of long-term debt	(268,316)	(139,427)
Cash provided by financing activities	1,688,559	23,956,151
INVESTING ACTIVITIES		
Short-term investment	(400,000)	—
Additions to property, plant and equipment	(2,377,874)	(784,113)
Cash used in investing activities	(2,777,874)	(784,113)
Net increase (decrease) in cash and cash equivalents during the year	(9,314,538)	15,912,686
Cash and cash equivalents, beginning of year	20,593,568	4,680,882
Cash and cash equivalents, end of year	11,279,030	20,593,568
Cash and cash equivalents are comprised of the following		
Cash	6,152,694	294,578
Investment in money market fund	5,126,336	20,298,990
	11,279,030	20,593,568
Supplemental cash flow information		
Additions to property, plant and equipment not involving cash	132,596	—
Interest received	763,353	360,368
Interest paid	35,490	19,758

See accompanying notes

GeneNews Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Expressed in Canadian dollars unless otherwise noted]

December 31, 2007 and 2006

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

GeneNews Limited [the "Company" or "GeneNews"] 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 therapeutic intervention 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 as at December 31, 2007 and 2006 are located in Canada.

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.

The Company has incurred an accumulated deficit of \$33,348,130 as of December 31, 2007, expects to incur additional losses in its operations and will require additional financial resources to continue its research and achieve commercialization of its discoveries. It is not possible to predict the future outcome of the Company's research programs or the Company's ability to fund its future cash requirements.

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 from the going concern basis.

2. 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.

Changes in Accounting Policy

Current:

The Company adopted The Canadian Institute of Chartered Accountants ["CICA"] Handbook Section 1530 on *Comprehensive Income*, Section 3855 on *Financial Instruments – Recognition and Measurement*, and Section 3865 on *Hedges*. These new standards require that fair value and not historical is the appropriate measurement criteria for certain financial instruments. The adoption of these standards has not resulted in any changes in the accounting of financial instruments due to the nature of the Company's financial instruments.

GeneNews Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Expressed in Canadian dollars unless otherwise noted]

December 31, 2007 and 2006

Future:

[i] CICA Handbook Section 1535, *Capital Disclosures*

CICA Handbook Section 1535, *Capital Disclosures*, applicable to interim and annual periods relating to fiscal years beginning on or after October 1, 2007, specifies disclosures of [1] information about the entity's objectives, policies, and processes for managing capital structure; [2] quantitative data about what the entity regards as capital; and [3] whether the entity has complied with externally imposed capital requirements [for example bank covenants] and if it has not complied, the consequences of such non-compliance. The Company will adopt CICA 1535 on January 1, 2008 and is currently evaluating the effect of adopting this standard.

[ii] CICA 3862, *Financial Instruments – Disclosure and CICA 3863, Financial Instruments – Presentation*

These new standards revise and enhance the disclosure requirements, and carryforward, substantially unchanged, the presentation requirements. These new standards emphasize the significance of financial instruments to the entity's financial position and performance, the nature and extent of risks arising from financial instruments, and how these risks are managed. These new standards are applicable to interim and annual periods relating to fiscal years beginning on or after October 1, 2007. The Company will adopt CICA 3862 and CICA 3863 on January 1, 2008 and is currently evaluating the effects of adopting these standards.

[iii] CICA 1400, *General Standards of Financial Statement Presentation*

CICA 1400, General Standards of Financial Statement Presentation, was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The new requirements are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The Company will adopt the amendments to CICA 1400 on January 1, 2008 and is currently evaluating the effects of adopting the new requirements of this standard.

The significant accounting policies are as follows:

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary companies, GeneNews Corporation and GeneNews Inc. These consolidated financial statements also include the accounts of GeneNews (Malaysia) Sdn. Bhd ["GeneNews Malaysia"]. The shares of GeneNews Malaysia, although beneficially owned and controlled by the Company, are legally wholly-owned by a founder of GeneNews. This founder has executed a trust acknowledgement and declaration with the Company to acknowledge that the shares of GeneNews Malaysia are held in trust solely and exclusively for the Company on the direction of the Company.

All significant intercompany balances and transactions have been eliminated.

GeneNews Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Expressed in Canadian dollars unless otherwise noted]

December 31, 2007 and 2006

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates. Significant estimates made by management include reserves for accounts receivable, investment tax credits recoverable, prepaid expenses, basis for stock-based compensation, impairment of intellectual property and other long-lived assets and the useful lives of long-lived assets.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and investments in money market instruments with terms to maturity of less than 90 days at the date of acquisition.

Short-term investments

Short-term investments include investments in money market instruments with terms to maturity greater than 90 days and less than one year at the date of acquisition, and able to be promptly liquidated as required. Short-term investments are carried at cost plus accrued interest and the realizable value approximates the carrying value.

Intellectual property

Intellectual property is recorded at cost less accumulated amortization and is amortized over its economic life, which is estimated to be five years. Intellectual property is periodically reviewed by management and any permanent impairment would be written off in the year in which it occurs.

GeneNews Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Expressed in Canadian dollars unless otherwise noted]

December 31, 2007 and 2006

Property, plant and equipment

Property, plant and equipment are recorded at cost less investment tax credits recoverable and accumulated amortization. Amortization is provided over their estimated useful lives using the following rates and methods:

Laboratory equipment	20% - 30% declining balance
Office furniture and equipment	20% - 30% declining balance
Leasehold improvements	20% straight-line over the term of the lease

Management reviews the carrying amount of property, plant and equipment and intangible assets with finite lives if events or circumstances indicate that the carrying amount may not be recoverable. Recoverability is measured by comparing the carrying amounts of a group of assets to the future undiscounted net cash flows expected to be generated by that group of assets. If the carrying amount is not recoverable, the Company would recognize an impairment loss equal to the amount that the carrying value of a group of assets exceeds their fair value.

Revenue recognition

Revenues derived from collaboration agreements are comprised of up-front payments, milestone revenue and fees for services.

Non-refundable up-front payments are deferred and recognized on a straight-line basis over the contract term.

Revenues from collaborative research activities for the Company's provision of certain clinical data are reflected as milestone revenue. The collaborative activities include the delivery, acceptance and subsequent payment for the clinical data provided to the pharmaceutical company. The Company recognizes milestone revenue upon acceptance of this clinical data by the pharmaceutical company and when collectibility is reasonably assured.

Fees for services are billed and cash collected in advance of those services being performed and are recorded initially as deferred revenue on the consolidated balance sheets. During the term covered by the billing, the Company is continuously engaged in performing research and sharing information with the pharmaceutical company. Consequently, deferred amounts are recognized as revenue on a straight-line basis over the term covered by those billings.

GeneNews Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Expressed in Canadian dollars unless otherwise noted]

December 31, 2007 and 2006

Government assistance

Government assistance towards current expenses is included in the determination of income for the period as a reduction of the expenses to which it relates. Amounts received for future expenditures are recorded as a current liability. Government assistance towards the acquisition of property, plant and equipment is deducted from the cost of the related property, plant and equipment.

Research and development expenses

Research and development expenses, net of related investment tax credits, are expensed in the year in which they are incurred. Development costs are expensed in the year incurred unless such costs meet Canadian generally accepted accounting criteria for deferral and amortization. No development costs have been deferred to date.

Operating leases

Operating leases are accounted for by amortizing the aggregate cost of the lease over its term on a straight-line basis.

Capital lease obligations

Leases, which transfer substantially all the benefits and risks incidental to ownership of property, are recorded as an acquisition of an asset and the incurrence of an obligation. The asset is amortized over its useful life and the obligation, including interest thereon, is repaid over the term of the lease. The balance is included in long-term debt.

Income taxes

Income taxes are accounted for under the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. A valuation allowance is provided for future tax assets to the extent that it is more likely than not that the assets may not be realized.

GeneNews Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Expressed in Canadian dollars unless otherwise noted]

December 31, 2007 and 2006

Stock-based compensation

Stock options awarded to employees on or after January 1, 2003 are accounted for using the fair value method. Fair value is calculated using the Black-Scholes option pricing model with the assumptions described in note 9. Consideration paid on the exercise of stock options is credited to capital stock.

Under the fair value based method, stock-based payments to non-employees are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, or liabilities incurred, whichever is more reliably measured. The fair value of stock-based payments to non-employees is periodically remeasured until counterparty performance is complete, and any change therein is recognized over the period and in the same manner as if the Company had paid cash instead of paying with or using equity instruments. The cost of stock-based payments to non-employees that are fully vested and non-forfeitable at the grant date is measured and recognized at that date.

Net loss per share

Diluted net loss per share reflects the dilution that would occur if outstanding stock options and warrants were exercised or converted into common shares using the treasury stock method. The inclusion of the Company's stock options and warrants in the computation of diluted net loss per share would have an anti-dilutive effect on net loss per share and therefore options and warrants are excluded from the computation.

Financial instruments

The fair values of cash and cash equivalents, short-term investment, accounts receivable, investment tax credits recoverable, and accounts payable and accrued liabilities approximate their carrying value due to the short-term nature of these financial instruments. The fair value of long-term debt approximates its carrying value based on the Company's current expected borrowing rates from the same or similar parties. Fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties.

The fair value of long-term debt approximates its carrying value based on the Company's current expected borrowing rates from the same or similar parties.

The Company is exposed to foreign currency fluctuations to the extent that revenues are billed based on the value of the U.S. dollar and certain purchases are denominated in U.S. dollars as well as other foreign currencies. The Company currently does not use financial instruments to hedge these risks.

The Company is not exposed to interest rate risk.

GeneNews Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Expressed in Canadian dollars unless otherwise noted]

December 31, 2007 and 2006

Foreign currency translation

The Company's foreign subsidiary is considered an integrated foreign entity and is accounted for in accordance with the temporal method, as are transactions in foreign currencies entered into by the Company, including those resulting in deferred revenue. Under this method, monetary assets and liabilities such as amounts receivable or payable recorded in a foreign currency are translated into Canadian dollars at year-end exchange rates and non-monetary assets and liabilities such as deferred charges or revenue are translated at the exchange rates prevailing when the assets were acquired or liabilities were incurred. Revenue and expenses [other than depreciation and amortization, which are translated at the rate applicable to the corresponding assets] are translated at the average rate of exchange for the period. Gains and losses on translation of foreign currencies are included in the consolidated statements of operations and deficit in the current year.

Consolidation of GeneNews Malaysia

Variable interest entities ["VIEs"] refer to those entities that are subject to control on a basis other than ownership of voting interests. AcG-15 provides guidance for identifying VIEs and criteria for determining which entity, if any, should consolidate them.

The Company has determined that GeneNews Malaysia constitutes a VIE on the basis that the shares are controlled by the Company by way of a trust acknowledgement and declaration executed by the legal owner of the shares of GeneNews Malaysia. As a result, the accounts of GeneNews Malaysia are consolidated with those of the Company.

3. ACCOUNTS RECEIVABLE AND DEFERRED REVENUE

On August 11, 2007, the Company entered into a 21-month collaboration agreement with an Asian biomedical consortium to identify and validate a set of biomarkers for specific clinical indication in the area of prostate disease. The Company will receive a total of \$2,107,200 [US\$2 million] in four equal payments, the last of which is due November 2008. As at December 31, 2007 \$1,483,150 [US\$1.5 million] was included in accounts receivable. As of March 5, 2008, a further US\$500,000 was received.

The revenue from this collaboration was deferred and is being amortized to income on a straight-line basis over the term of the agreement. As at December 31, 2007, \$1,605,676 was deferred, of which \$401,371 is due in 2009 and classified as long-term.

The collaboration agreement with Pfizer was concluded in 2006 and the final payment for milestone revenue of \$1,666,236 was received in 2007.

GeneNews Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Expressed in Canadian dollars unless otherwise noted]

December 31, 2007 and 2006

4. INVESTMENT TAX CREDITS RECOVERABLE

The Company is eligible for both federal and provincial investment tax credits on its qualifying research activities. Federal investment tax credits are not refundable but can be used to reduce income taxes otherwise payable. Provincial investment tax credits are refundable as cash refunds and these amounts are recorded as an asset in the period in which the related expenditures are incurred, with a corresponding credit to research and development expense. Subsequent to the year end, the Company received \$464,581 in partial payment of the provincial investment tax credits receivable.

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	2007		Net
	Cost	Accumulated	book
	\$	amortization	value
	\$	\$	\$
Laboratory equipment [net of investment tax credits of \$282,091]	2,569,660	1,333,348	1,236,312
Office furniture and equipment	1,418,445	613,146	805,299
Leasehold improvements	1,668,696	75,062	1,593,634
	5,656,801	2,021,556	3,635,245

Included in property, plant and equipment is \$1,499,990 of cost related to a 36-month capital lease entered into in 2007 and a total of \$52,771 of amortization has been recorded on the leased assets, for a net book value of \$1,447,219.

	2006		Net
	Cost	Accumulated	book
	\$	amortization	value
	\$	\$	\$
Laboratory equipment [net of investment tax credits of \$282,091]	2,275,852	1,129,850	1,146,002
Office furniture and equipment	830,703	456,216	374,487
Leasehold improvements	471,359	346,360	124,999
	3,577,914	1,932,426	1,645,488

GeneNews Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Expressed in Canadian dollars unless otherwise noted]

December 31, 2007 and 2006

6. INTELLECTUAL PROPERTY

Intellectual property consists of the following:

	2007	2006
	\$	\$
Acquired technology	2,324,015	2,324,015
Less accumulated amortization	(1,923,635)	(1,481,487)
	400,380	842,528

Amortization of intellectual property for the year ended December 31, 2007 was \$442,148 [2006 - \$442,147].

7. REVOLVING CREDIT FACILITY

The Company has negotiated a revolving credit facility with a Canadian chartered bank in the amount of \$500,000 bearing interest of prime plus 1.75% that would be securitized by a pledge of government investment tax credits receivable. The Company has not drawn on this credit facility to date.

8. LONG-TERM DEBT

Long-term debt consists of the following:

	2007	2006
	\$	\$
6.99% capital lease due in 36 blended monthly installments of \$46,040 and collateralized by a general security agreement on the assets of the Company in favour of the Company's bankers	1,500,135	—
8% subordinated term loan payable due in 60 blended monthly installments of \$8,805 and collateralized by an irrevocable declining letter of credit in the amount of \$400,000. The letter of credit is collateralized by a short-term investment of \$400,000	366,684	—
11.89% term loan, which was collateralized by a general security agreement on the assets of the Company, was repaid in July 2007	—	102,549
	1,866,819	102,549
Installments due within one year	585,903	102,549
	1,280,916	—

GeneNews Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Expressed in Canadian dollars unless otherwise noted]

December 31, 2007 and 2006

Installments of long-term debt due in the next five years are as follows:

	\$
2008	585,903
2009	625,671
2010	518,387
2011	89,438
2012	47,420
Total	1,866,819

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:

[a] Common shares

The changes in common shares are as follows:

	#	\$
Balance at December 31, 2005	39,504,397	19,958,201
Issuance of shares for cash	15,625,000	23,540,466
Expiry of 2004 broker warrants	—	164,209
Exercise of 2004 broker warrants	31,578	49,873
Exercise of stock options	248,600	165,410
Balance at December 31, 2006	55,409,575	43,878,159
Exercise of stock options	109,194	56,521
Balance at December 31, 2007	55,518,769	43,934,680

On May 25, 2006, the Company entered into a bought deal private placement financing of 15,625,000 common shares at \$1.60 per share, or \$25,000,000. The net cash proceeds were \$23,896,715. Of the net proceeds, \$23,540,466 was allocated to capital stock and \$356,250 to 625,000 broker warrants [note 9[b]]. The warrants were issued to the Company's financial advisors as part of the private placement transaction. The warrants were valued using the Black-Scholes warrant valuation model.

GeneNews Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Expressed in Canadian dollars unless otherwise noted]

December 31, 2007 and 2006

[b] Broker warrants

The changes in broker warrants are as follows:

	#	\$
Balance at December 31, 2005	347,368	180,630
Issuance of 2006 broker warrants	625,000	356,250
Exercise of 2004 broker warrants	(31,578)	(16,421)
Expiry of 2004 broker warrants	(315,790)	(164,209)
Balance at December 31, 2007 and 2006	625,000	356,250

On May 25, 2006, the Company granted 625,000 broker warrants in connection with the private equity financing described in note 9[a]. These warrants are exercisable until May 24, 2008 at \$2.25 per share. None of the 2006 broker warrants were exercised during the year.

[c] Contributed surplus

The balance in contributed surplus of \$2,733,562 [2006 - \$2,255,390] consists of employee stock option expense. The stock-based compensation expense for 2007 was \$478,172 [2006 - \$728,383]. The weighted average exercise price of stock options granted during the year was \$0.71 [2006 - \$1.53].

In compliance with current accounting standards, the fair value of each stock option is estimated on the date of grant using the Black-Scholes option pricing model. The Black-Scholes model requires four highly subjective assumptions, including future stock price volatility and expected time until exercise, which greatly affect the calculated values. For the year ended December 31, 2007, the weighted average assumptions were: five-year term [2006 - five-year term]; expected dividend yield of nil [2006 - nil]; expected volatility of 93% [2006 - 98%]; risk-free interest rate of 4.0% [2006 - 4.0%]; and expected life of four to five years [2006 - four to five years].

[d] Employee stock option plan

On May 25, 2000, the Company adopted a Stock Option Plan [the "Plan"] pursuant to which the Company's Board of Directors [the "Board"] may grant stock options to employees, consultants, advisors or directors of the Company. The latest revision to the Plan, approved on April 9, 2007, establishes that the maximum number of common shares available for issuance under the Plan does not exceed 15% of the Company's issued and outstanding shares at any time. Some options vest on the date of grant and the remaining options are subject to various vesting requirements that range from one year to three years after the grant date to be determined at the discretion of the Board. The options must be exercised no later than 5 years after the date of the grant. The exercise price of an option must be not less than the closing

GeneNews Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Expressed in Canadian dollars unless otherwise noted]

December 31, 2007 and 2006

price of the Company's common shares on the Toronto Stock Exchange on the trading day immediately preceding the date the option is granted. As at December 31, 2007, there were 5,534,179 [2006 - 5,312,565] options outstanding representing 10.0% [2006 - 9.6%] of the Company's issued common shares.

A summary of the status of the Plan as at December 31 and changes during the years then ended is presented below:

	2007		2006	
	Weighted average exercise price	price	Weighted average exercise price	price
	#	\$	#	\$
Outstanding, beginning of year	5,312,565	1.02	4,457,276	0.84
Granted	945,779	0.71	1,501,289	1.53
Exercised	(109,194)	0.52	(248,600)	0.67
Forfeited	(614,971)	1.18	(397,400)	1.14
Outstanding, end of year	5,534,179	0.96	5,312,565	1.02
Options exercisable, end of year	4,385,388	0.93	3,618,103	0.88

The following table summarizes information about stock options outstanding and exercisable as at December 31, 2007:

Range of exercise price per share	Number outstanding	Weighted-average remaining contractual life	Options exercisable
\$	#	[in years]	#
\$0.25 to \$0.69	776,608	3.691	455,942
\$0.70 to \$1.14	3,701,157	1.775	3,335,804
\$1.15 to \$1.59	893,080	3.519	538,553
\$1.60 to \$2.04	88,334	3.277	30,091
\$2.05 to \$2.50	75,000	3.296	24,998
5,534,179	5,534,179	2.370	4,385,388

GeneNews Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Expressed in Canadian dollars unless otherwise noted]

December 31, 2007 and 2006

10. RELATED PARTY TRANSACTIONS

The following transactions, in which one or more of the founders has an interest, occurred during the years ended December 31:

	2007	2006
	\$	\$
[a] Consulting fees are to be paid to one of the founders pursuant to a renewable one-year agreement. In addition, included in stock based compensation expense is \$53,571 [2006 - \$85,351] related to stock options granted to this founder in his capacity as a consultant. This amount is included in research and development expenses in the consolidated statements of operations and deficit.	290,191	312,294
[b] The Company paid rent for a portion of its premises pursuant to a lease agreement with the spouse of one of the founders. This amount is included in general and administrative expenses in the consolidated statements of operations and expenses. As at December 31, 2007, the Company had \$5,000 [2006 - \$5,000] included in prepaid expenses and deposits in the consolidated balance sheets.	43,929	69,848
[c] The Company incurred fees for research performed by laboratories run by one of the founders. This amount is included in research and development expenses in the consolidated statements of operations and deficit. As at December 31, 2007, \$26,000 [2006 - \$52,000] was unpaid.	78,000	78,000

These transactions have been measured at their respective exchange amounts, being the consideration established and agreed to by the related parties.

GeneNews Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Expressed in Canadian dollars unless otherwise noted]

December 31, 2007 and 2006

11. GOVERNMENT ASSISTANCE

During the year, the Company earned federal government assistance of \$4,000 [2006 - \$53,013] from a National Research Council Industrial Research Assistance Program to support the cost of salaries related to the development of molecular assays. These amounts were accounted for as a reduction of research and development expenses.

12. INCOME TAXES

The differences between the income tax expense (recovery) and the amount that would be computed by using the applicable federal and provincial statutory tax rate of 36.1% [2006 - 36.1%] are as follows:

	2007 \$	2006 \$
Net and comprehensive loss for the year	9,634,045	8,935,673
Income tax recovery computed at statutory rate	(3,479,817)	(3,227,565)
Decrease in income tax recovery:		
Non-deductible expenses	7,609	8,452
Stock option expense	172,716	263,092
Income tax recovery	(3,299,492)	(2,956,021)
Future tax assets not tax benefited	3,299,492	2,956,021
Net income tax recovery	—	—

GeneNews Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Expressed in Canadian dollars unless otherwise noted]

December 31, 2007 and 2006

The tax effects of the loss carryforwards and temporary differences that give rise to future tax assets and future tax liabilities are presented below:

	2007	2006
	\$	\$
Future tax assets		
Non-capital loss carryforwards	4,054,100	3,868,200
Research and development expenditures	5,067,800	3,764,500
Unamortized share issue costs	351,800	417,300
Federal investment tax credits carried forward	3,312,200	2,401,000
Total future tax assets	12,785,900	10,451,000
Less valuation allowance	(12,721,900)	(10,018,300)
	64,000	432,700
Future tax liabilities		
Property, plant and equipment	(17,000)	174,700
Intellectual property	81,000	258,000
Total future tax liabilities	64,000	432,700
Net future tax assets	—	—

The valuation allowance for future tax assets as at December 31, 2007 is \$12,721,900 [2006 - \$10,018,300]. The valuation allowance increased by \$2,793,600 [2006 - \$3,518,100] during the year mainly due to additional scientific research and experimental development ["SRED"] expenditures incurred during the year and the increase in investment tax credits available for carryforward. The ultimate realization of the future tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible. Based on the fact that the Company is an early stage biotechnology company dependent on raising future capital to fund its activities, it cannot be reasonably estimated at this time if it is more likely than not the Company will realize the benefits of these future tax assets. Consequently, the future tax assets have been reduced by a valuation allowance such that the net future tax assets balance is nil.

As at December 31, 2007, the Company and its subsidiary have \$13,557,000 [2006 - \$11,611,600] of Federal non-capital losses and \$13,557,000 [2006 - \$12,831,500] of Ontario non-capital losses available for carryforward, as well as \$4,089,100 [2006 - \$2,966,900] of Federal investment tax credits available to reduce future Federal taxes payable.

GeneNews Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Expressed in Canadian dollars unless otherwise noted]

December 31, 2007 and 2006

These will expire as follows:

	Investment tax credits	Ontario loss carryforwards	Federal loss carryforwards
	\$	\$	\$
2008	—	1,443,400	1,443,400
2009	108,800	1,343,300	1,343,300
2010	94,500	367,500	367,500
2011	47,400	—	—
2012	18,600	—	—
2013	66,400	—	—
2014	658,600	1,885,800	1,885,800
2015	760,400	178,800	178,800
2026	1,066,500	4,629,300	4,629,300
2027	1,267,900	3,708,900	3,708,900
	4,089,100	13,557,000	13,557,000

In addition to the non-capital losses outlined above, the Company and its subsidiaries have \$8,292,700 [2006 - \$6,696,400] in SRED expenditures that are available to reduce future taxable income in future years and have an unlimited carryforward period. The benefit of this carryforward amount has not been reflected in these consolidated financial statements.

13. COMMITMENTS AND CONTINGENCIES

Aggregate future minimum annual lease payments for the rental of the Company's premises and obligations under its various collaborative research agreements are as follows:

	\$
2008	402,520
2009	338,964
2010	338,964
2011	338,964
2012 and thereafter	899,497
	2,318,909

The Company is committed to paying \$250,000 to one of the founders in 2008 under a consulting contract [note 10[a]].