



## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2005, including the related notes therein, prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

This discussion includes forward-looking statements made by management that involve uncertainties and risks, including those discussed herein and as described in the "Risk Factors" section of our Annual Information Form. When used in this document, the words "may", "would", "could", "will", "intend", "plan", "propose", "anticipate", "believe", "forecast", "estimate", and "expect" and similar expressions as they relate to the Company or its management, are intended to identify forward-looking statements. Such forward-looking statements should be given careful consideration and undue reliance should not be placed on these statements. The Company bases its forward-looking statements on information currently available to it, and assumes no obligation to update them. Our actual results may differ materially from those contained in any forward-looking statements. Additional information relating to the Company is available by accessing the SEDAR website at [www.sedar.com](http://www.sedar.com). All amounts are expressed in Canadian dollars unless otherwise indicated.

This management discussion and analysis of financial condition and results of operations has been prepared as at May 25, 2006.

### **OVERVIEW**

Response Biomedical Corporation ("Response Biomedical" or "the Company") develops, manufactures and sells diagnostic tests for use with its proprietary RAMP<sup>®</sup> System, a fluorescent immunoassay-based on-site diagnostic testing platform. The RAMP technology utilizes a unique method to account for sources of error inherent in conventional lateral flow immunoassay technologies, thereby providing the ability to quickly and accurately detect and quantify an analyte present in a liquid sample. Consequently, an end user on-site or in a point-of-care setting can rapidly obtain important diagnostic information. Response currently has nine RAMP tests available for clinical and environmental testing applications and the Company has plans to commercialize additional tests.

The Company's revenues by product market segment were as follows:

Clinical revenue for the three-month period ended March 31, 2006 increased 198% to \$167,274 compared to \$56,211 in 2005.

Biodefense revenue for the three-month period ended March 31, 2006, decreased 52% to \$299,767 compared to \$620,943 in 2005.

Vector products (West Nile Virus) revenue for the three-month period ended March 31, 2006 increased 83% to \$205,555 compared to \$112,369 in 2005.

Contract service fees and revenue from collaborative research agreements for the three-month period ended March 31, 2006 increased 800% to \$65,589 compared to \$7,294 in 2005.

As at March 31, 2006, the Company had bank indebtedness of \$nil (December 31, 2005 – \$1,070,514). The Company's line of credit established with the Toronto Dominion Bank was repaid and terminated following the closing of a \$12,000,000 private placement on March 30,

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2006. At March 31, 2006, the Company had a working capital balance of \$6,748,739 (December 31, 2005 – negative working capital of \$2,905,552).

Operational milestones during the three months ended March 31, 2006 included:

- In January 2006, the Company confirmed that initial evaluations performed by independent public health organizations demonstrated that the Company's rapid Ramp Flu A Test had significantly greater sensitivity than existing point-of-care diagnostic products. The Company announced its plans to initiate multicentre clinical trials of its Ramp Flu A and Flu B tests during the current influenza season.
- On March 30, 2006, the Company closed private placement financings for total gross proceeds of \$12,000,000. With the closing of the financings, five new Board members were appointed to replace existing board members.
- Further collaborative research and development milestones were achieved with Shionogi & Co., Ltd. and General Dynamics Canada Ltd.

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The Company's financial statements are prepared in accordance with Canadian GAAP. These accounting principles require management to make certain estimates and assumptions. Management believes that the estimates and assumptions upon which it determines its assessments are reasonable based upon the information available at the time that these estimates and assumptions are made. Actual results could differ from management's estimates. Areas of significant estimates include amortization of capital, the carrying value of convertible debentures and stock-based compensation.

The Company's significant accounting policies are disclosed in Note 2 to the audited consolidated financial statements as at December 31, 2005. The Company believes that the significant accounting policies disclosed in its year-end financials are critical in fully understanding and evaluating its reported interim and annual financial results. Additional information relating to the Company, including its fiscal 2005 audited consolidated financial statements, is available by accessing the SEDAR website at [www.sedar.com](http://www.sedar.com).

#### **Revenue recognition**

Product sales are recognized upon the shipment of products to distributors, if a signed contract exists, the sales price is fixed and determinable, collection of the resulting receivables is reasonably assured and any uncertainties with regard to customer acceptance are insignificant. Sales are recorded net of discounts and sales returns. A provision for the estimated warranty expense is established by a charge against operations at the time the product is sold.

Contract service fees are recorded as revenue as the services are performed pursuant to the terms of the contract provided collectibility is reasonably assured. Upfront fees from collaborative research arrangements which are non-refundable and require the ongoing involvement of the Company are deferred and amortized into income on a straight-line basis over the term of ongoing development. Upfront fees from collaborative research arrangements which are refundable are deferred and recognized once the refundability period has lapsed.

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### **Research and development costs**

Research costs are expensed in the year incurred. Development costs are expensed in the year incurred unless the Company believes a development project meets Canadian GAAP for deferral and amortization.

### **Stock-based compensation**

The Company grants stock options to executive officers, directors, employees and consultants pursuant to a stock option plan described in note 8 to the consolidated financial statements. The Company uses the fair value method of accounting for all stock-based awards for non-employees and for all stock-based awards granted, modified or settled since January 1, 2003 for awards to employees. The fair value of stock options is determined using the Black-Scholes option-pricing model which requires certain assumptions, including future stock price volatility and expected time to exercise. Changes to any of these assumptions could produce different fair values for stock-based compensation. For stock-based awards to employees granted, modified or settled from January 1, 2002 to December 31, 2002, the Company discloses the pro forma effects to the loss for the period and loss per common share for the period as if the fair value method had been used at the date of grant.

### **Warranty accruals**

The Company offers a warranty on its products. The Company estimates costs which may be incurred under its warranty program as liabilities at the time the products are sold. Factors that affect the Company's warranty liability include the number of units sold, anticipated rates of warranty claims, and costs per claim, which require management to make estimates about future costs. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

### **Convertible debentures**

The carrying value of the convertible debentures is calculated as the present value of the required interest and principal payments discounted at a rate approximating the interest rate that would have been applicable to non-convertible debentures at the time the debentures were issued. The difference between the face value and the estimated carrying value of the debt is recorded as contributed surplus. The carrying value of the convertible debentures is being accreted to the principal amount using the effective yield method as additional non-cash interest expense over the term of the debenture.

## **RESULTS OF OPERATIONS**

For the three-month period ended March 31, 2006 and 2005.

### **Revenue and Cost of Sales**

Revenues from product sales for the three-month period ended March 31, 2006 were \$672,596 compared to \$789,523 for the same period in 2005, a decrease of 15%.

Biodefense product sales for the three-month period ended March 31, 2006 decreased 52% to \$299,767 compared to \$620,943 for the same period in 2005. We believe the decrease in biodefense product sales was primarily due to a shift in U.S. focus and resources from biodefense

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toward other Department of Homeland Security initiatives, including hurricane relief. At this time, it is unknown how long this effect will continue.

Clinical cardiac product sales for the three-month period ended March 31, 2006 increased 198% to \$167,274 compared to \$56,211 for the same period in 2005 due to new RAMP cardiac system sales internationally, the shipment of initial systems to U.S. distributors as well as recurring test sales to our growing customer base.

Sales of the Company's West Nile Virus products for the three-month period ended March 31, 2006 increased 83% to \$205,555 compared to \$112,369 for the same period in 2005 due to recurring product sales from our growing customer base as well as customers ordering earlier in the season based on expected needs versus the same period last year.

Revenues from contract service fees and collaborative research arrangements for the three-month period ended March 31, 2006 were \$65,589 compared to \$7,294 for the same period in 2005, an increase of 800%. This increase was primarily due to the timing of the performance of services required to recognize service revenue from the Company's collaborations.

Cost of sales for the three-month period ended March 31, 2006 was \$409,325 compared to \$396,164 in 2005, an increase of 3%. Cost of sales includes direct manufacturing labour and materials costs and allocated overhead.

Gross margin for the three-month period ended March 31, 2006 decreased to 45% compared to 50% for the same period in 2005 due to reduced sales, both in absolute and relative terms, of biodefense products which generate higher per unit profits as well as higher rent and facility costs, following the Company's move to a larger facility in October 2005. Going forward, the Company expects quarter-to-quarter variation in gross margin based on product mix however, expects gross margin to trend upward as it benefits from improved economies of scale and further process improvements as it scales up and automates its manufacturing operations.

### **Expenses**

Research and development expenditures for the three-month period ended March 31, 2006 increased to \$1,161,151 from \$718,152, an increase of 62%. The increase reflects higher payroll and material costs to support increased product development activity on projects including tests for BNP, NT-Pro BNP, influenza A and B and Staph A (\$158,000); NT-proBNP license fees (\$246,000) and increased facility costs (\$62,000).

Marketing and business development expenses for the three-month period ended March 31, 2006 decreased 38% to \$479,891 compared to \$752,699 for the same period in 2005. The decrease in 2006 was primarily due to lower payroll and benefit costs (\$176,000) and reduced travel costs (\$43,000), related to re-deploying and reducing the Company's direct clinical sales resources to instead support of a complete network of distributors in the United States for its cardiac products.

General and administrative expenses for the three-month period ended March 31, 2006 increased to \$750,162 compared to \$495,823 for the same period in 2005, an increase of 51%. This increase is primarily the result of strategic consulting services (\$67,000) incurred as part the restructuring of its board, increased facility costs (\$54,000) and increased stock based compensation expense (\$121,000) which includes expense related to shares and options issued as part of the re-organization of the Company's board of directors.

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### Other Income/Expenses

For the three-month period ended March 31, 2006, amortization of financing costs and interest expense were \$136,888 compared to \$18,074 for the same period in 2005. Amortization of deferred financing costs for the three-month period ended March 31, 2006 were \$37,544 (2005 - \$17,970). These costs mainly relate to the amortization of the estimated fair value of warrants issued to a guarantor as part of a credit facility agreement. For the three-month period ended March 31, 2006, the Company incurred \$14,190 (2005 - \$104) in interest expense on the use of the line of credit facility and other miscellaneous interest charges and \$85,154 (2005 - \$Nil) in paid and accreted interest related to convertible debentures.

During the three-month period ended March 31, 2006, the Company earned interest income of \$956 (2005 - \$8,302) relating to funds on deposit.

### Loss

For the three-month period ended March 31, 2006, the Company reported a loss of \$2,191,405 or \$0.03 per share compared to a loss of \$1,577,008 or \$0.02 per share in 2005. The increase in loss is primarily due to increased research and development expenditures for new research and development projects, license fees for rights to develop a RAMP NT-proBNP Test and an increase facility costs.

### SUMMARY OF QUARTERLY RESULTS

The table below sets forth selected data derived from the Company's unaudited consolidated interim financial statements prepared in accordance with Canadian generally accepted accounting principles for the eight previous quarters ended March 31, 2006.

	2006 Q1 \$	2005 Q4 \$	2005 Q3 \$	2005 Q2 \$	2005 Q1 \$	2004 Q4 \$	2004 Q3 \$	2004 Q2 \$
Total Revenue	<b>738,185</b>	1,043,215	719,729	929,919	796,817	456,493	657,753	753,499
Loss	<b>(2,191,405)</b>	(3,031,101)	(1,933,580)	(1,883,294)	(1,577,008)	(1,965,811)	(1,113,240)	(1,109,420)
Loss per Share – Basic and Diluted	<b>(\$0.03)</b>	(\$0.04)	(\$0.03)	(\$0.03)	(\$0.02)	(\$0.03)	(\$0.02)	(\$0.02)
Total Assets	<b>10,164,602</b>	2,253,939	2,049,527	2,733,627	3,297,073	4,544,784	2,212,921	1,690,666

Quarter-to-quarter variability and the general trending increase in revenue is driven primarily by the following factors:

- Generally increasing market acceptance of the Company's products with 2006 being the third full year of sales for West Nile Virus products, the third full year for biodefense products and the initial launch of clinical products occurring internationally in mid 2004 and in the U.S. in January 2005 with periodic variability caused by the following:
  - Seasonality related to the demand for RAMP West Nile Virus Tests where the majority of the year's sales occur in the second and third quarters;
  - The timing of achievement of services contract milestones and corresponding revenue recognition;
  - The shift of focus and resources in late 2005 by the U.S. government, toward hurricane relief and away from biodefense initiatives; and

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- The timing of biodefense product orders, and the timing of cardiac product orders from its distributor in China.

The increased losses reported are primarily the result of increasing marketing and business development expenditures, increased research and development expenditures for new product development and to improve current products, and a general increase in infrastructure across all functions to support anticipated sales and partnering requirements.

### **LIQUIDITY AND CAPITAL RESOURCES**

The Company has financed its operations primarily through equity and debt financings. As of March 31, 2006 the Company has raised approximately \$47.4 million from the sale and issuance of equity securities and convertible debt, net of issue costs.

The Company's working capital as of March 31, 2006 was \$6,748,739, an increase of \$9,654,291 from negative working capital of \$2,905,552 as of December 31, 2005. For the three-month period ended March 31, 2006, the Company relied on cash on hand, its line of credit facility and profit margin from sales of products and contract and collaborative research services to fund its expenditures, significantly improving its working capital position with the closing of financings for net proceeds of \$10,989,680 on March 30, 2006.

For the three-month period ended March 31, 2006, the Company incurred a loss of \$2,191,405 versus a loss of \$1,577,008 for the same period in 2005. Until the Company receives additional revenue from product sales, it will continue to fund its operations from a combination of the issuance of equity securities, contract service fees, revenues from collaborative research arrangements, and possibly debt financing.

As at March 31, 2006, the Company had 19,144,372 warrants outstanding at exercise prices between \$0.50 and \$1.50 per share, which if fully exercised, would result in the receipt of approximately \$13.9 million. The Company also had 10,080,250 stock options outstanding of which 6,926,565 were exercisable at prices between \$0.27 and \$1.27 per share and which, if fully exercised, would result in the receipt of approximately \$4.0 million.

### **RISKS AND UNCERTAINTIES**

Although the Company believes that there is a significant market opportunity for its diagnostic products, the markets for rapid on-site and point-of-care diagnostic tests are fragmented and still in their early stages of growth. Accordingly, there are a variety of risks that the Company will face in order to be successful. Significant efforts are being made by companies with greater resources than the Company to develop competing technologies and products. The success of the Company will depend upon the ability of the Company to demonstrate that the performance of its products exceeds that of competing tests. Additionally, where relevant, the Company may be required to show that the results of its products are similar to more expensive laboratory-based products. For clinical testing applications, the Company requires a number of regulatory approvals to market its products, the most important being approval by the United States Food and Drug Administration. Although uncertain at this time, regulatory approvals could be required at some point in the future for the Company's environmental testing products. The market for the Company's products will also be influenced by competing technologies and the success of the Company's business will be highly dependent on the degree of protection provided by its intellectual property. The Company must also obtain funding for the development and commercialization of its products on reasonable terms and must compete for capital with firms within the medical diagnostics industry as well as

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with firms in other sectors. The recruitment and retention of personnel skilled in product development and manufacturing is critical for the Company to achieve its objectives. The Company attempts to reduce business and product development risk through a number of different strategies. For example, the Company seeks to establish relationships with strategic partners to assist in the development, funding and marketing of some of its products. This allows the Company to focus on using its own resources to develop additional product candidates and exploit new applications for its technology, further enhancing the number of product opportunities available to the Company. The Company may not be able to adequately protect its technology and proprietary rights, and third parties may claim that the Company infringes their proprietary rights. If the Company cannot protect its technology, companies with greater resources than the Company may be able to use their technology to make products that directly compete with the Company's. Additionally, third parties claiming that the Company infringes on their proprietary rights may be able to prevent the Company from marketing its products or force the Company to enter into license agreements to do so. Both situations may negatively impact the Company's ability to generate revenues, cash flows and earnings. The Company will also continue to review and wherever practical, expand upon its intellectual property portfolio to safeguard what the Company believes to be its technological competitive advantages.

The Company has had an ongoing need to raise additional funds to continue conducting its research and development programs and clinical trials, purchase capital equipment and commercialize its products. There can be no assurance that such funds will be available on favorable terms, or at all. If adequate funding is not available, the Company may be required to delay, reduce or eliminate one or more of its research or development programs or obtain funds through arrangements with corporate partners or others that may require the Company to relinquish greater or all rights to product candidates at an earlier stage of development or on less favorable terms than the Company would otherwise seek. Insufficient funding may also require the Company to relinquish rights to certain of its technologies that the Company would otherwise develop itself.

### Foreign Exchange and Inflation

Financial risk is the risk to the Company's results of operations that arise from fluctuations in interest rates and foreign exchange rates and the degree of volatility of these rates. The Company is subject to foreign exchange risk as substantially all its revenues are denominated in U.S. dollars. The Company mitigates foreign exchange risk as it maintains U.S. dollar bank accounts that are used to pay for expenses in U.S. dollars.

Interest rate risk arises due to the Company's cash and cash equivalents being invested in variable rate securities and the Company's loans having fixed and variable interest rates.

### MATERIAL COMMITMENTS AND CONTRACTUAL OBLIGATIONS

As at March 31, 2006, the Company had the following commitments and contractual obligations.

Commitments and Obligations	Total	< 1 Year	1 – 3 Years	4 – 5 Years	> 5 Years
	\$	\$	\$	\$	\$
License Fees	2,291,210	1,351,585	905,625	21,000	13,000
Facility Sublease					
Convertible debentures principal	1,474,752	732,000	1,474,752		
Convertible debentures interest	284,643	110,530	174,113		

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **OFF BALANCE SHEET ARRANGEMENTS**

The Company does not have any material off balance sheet arrangements requiring disclosure.

### **OUTSTANDING SHARE CAPITAL**

As at March 31, 2006 there were 92,726,616 common shares issued and outstanding, 10,080,250 common shares issuable upon the exercise of outstanding stock options at a weighted-average exercise price of \$0.58 per share, 1,167,800 common shares reserved for future grant or issuance under the Company's stock option plan; 19,144,372 common shares issuable upon the exercise of outstanding warrants at a weighted average exercise price of \$0.73 per share and 3,502,377 common shares issuable upon the conversion of debentures at an average conversion price of \$0.42 per share.

### **TRANSACTIONS WITH RELATED PARTIES**

The Company has various agreements with Directors and former Directors which are described in Note 11 of its audited consolidated financial statements for the year ended December 31, 2005.

### **FINANCIAL INSTRUMENTS**

Certain of the Company's financial instruments, including cash equivalents, accounts and amounts receivable and accounts payable, the carrying amounts approximate fair values due to their short term nature.

The carrying value of the convertible debentures is calculated as the present value of the required interest and principal payments discounted at a rate approximating the interest rate that would have been applicable to non-convertible debentures at the time the debentures were issued. The difference between the face value and the estimated carrying value of the debt is recorded as contributed surplus. The carrying value of the convertible debentures is being accreted to the principal amount using the effective yield method as additional non-cash interest expense over the term of the debenture.

Financial risk is the risk to the Company's results of operations that arise from fluctuations in interest rates and foreign exchange rates and the degree of volatility of these rates. The Company is subject to foreign exchange risk given that approximately 95% of total revenues for the year ended December 31, 2005 were received in U.S. dollars. The Company minimizes this risk by maintaining a U.S. dollar account for all U.S. sales revenues and expenditures, thereby minimizing currency exchange.

Interest rate risk arises due to the Company's cash and cash equivalents being invested in variable rate securities.

**Response Biomedical Corporation**  
 Incorporated under the laws of British Columbia

**CONSOLIDATED BALANCE SHEETS**  
 [See Note 1 - Basis of Presentation]

(Expressed in Canadian dollars)  
 Unaudited

**March 31, 2006**      **December 31, 2005**  
 \$                                      \$

**ASSETS**

**Current**

Cash	8,295,049	173,094
Trade receivables [note 3]	328,093	421,672
Other receivables	56,433	62,448
Inventories [note 4]	681,526	693,915
Prepaid expenses and other	92,281	70,578
<b>Total current assets</b>	<b>9,453,382</b>	<b>1,421,707</b>
Property, plant and equipment	665,675	710,400
Deferred costs [notes 5,6 and 7]	45,545	121,832
	<b>10,164,602</b>	<b>2,253,939</b>

**LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)**

**Current**

Bank indebtedness [note 6]	—	1,070,514
Accounts payable and accrued liabilities	2,551,434	2,334,513
Subscription funds received	—	766,045
Deferred revenue - current portion	153,209	156,187
Deferred lease inducement - current portion	—	—
<b>Total current liabilities</b>	<b>2,704,643</b>	<b>4,327,259</b>
Deferred revenue	131,822	92,888
Convertible debentures [note 7]	902,417	1,012,584
	<b>3,738,882</b>	<b>5,432,731</b>

Commitments and contingencies [note 10]

**Shareholders' equity (deficiency)**

Share capital [note 8[a]]	43,253,569	35,743,700
Contributed surplus [notes 6, 7,8[a] and 8[c]]	9,627,471	5,341,423
Deficit	(46,455,320)	(44,263,915)
<b>Total shareholders' equity (deficiency)</b>	<b>6,425,720</b>	<b>(3,178,792)</b>
	<b>10,164,602</b>	<b>2,253,939</b>

See accompanying notes

On behalf of the Board:



William J. Radvak  
 Director



Brian G. Richards  
 Director

## Response Biomedical Corporation

### CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

Three Months Ended March 31,

(Expressed in Canadian dollars)  
Unaudited

	2006	2005
	\$	\$
<b>REVENUE</b>		
Contract service fees and revenues from collaborative research arrangements <i>[note 11]</i>	65,589	7,294
Product sales <i>[note 11]</i>	672,596	789,523
<b>Total revenue</b>	<b>738,185</b>	<b>796,817</b>
Less: cost of sales - products and services <i>[note 8 [c]]</i>	409,325	396,164
<b>Gross profit</b>	<b>328,860</b>	<b>400,653</b>
<b>EXPENSES</b>		
General and administrative <i>[notes 8 [c] and 9]</i>	750,162	495,823
Research and development <i>[note 8 [c]]</i>	1,161,151	718,152
Marketing and business development <i>[note 8 [c]]</i>	479,891	752,699
<b>Total expenses</b>	<b>2,391,204</b>	<b>1,966,674</b>
<b>OTHER EXPENSE</b>		
Interest expense <i>[notes 6 and 7]</i>	99,344	104
Interest income	(956)	(8,302)
Amortization of deferred financing costs <i>[note 5]</i>	37,544	17,970
Gain on disposal of property, plant and equipment	(2,234)	—
Foreign exchange (gain) loss	(4,637)	1,215
<b>Total other expense</b>	<b>129,061</b>	<b>10,987</b>
<b>Loss for the period</b>	<b>(2,191,405)</b>	<b>(1,577,008)</b>
Deficit, beginning of year	(44,263,915)	(35,838,932)
<b>Deficit, end of period</b>	<b>(46,455,320)</b>	<b>(37,415,940)</b>
<b>Loss per common share - basic and diluted</b>		
<i>[note 8[f]]</i>	(\$0.03)	(\$0.02)
<b>Weighted average number of common shares</b>		
<b>outstanding <i>[note 8[f]]</i></b>	<b>68,108,037</b>	<b>67,574,453</b>

See accompanying notes

## Response Biomedical Corporation

### CONSOLIDATED STATEMENTS OF CASH FLOWS

Three Months Ended March 31,	(Expressed in Canadian dollars)	
	Unaudited	
	2006	2005
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Loss for the period	(2,191,405)	(1,577,008)
Add (deduct) items not involving cash:		
Amortization of property, plant and equipment	46,167	60,723
Gain on disposal of property, plant and equipment	(2,234)	—
Stock-based compensation	311,395	228,432
Amortization of and change in deferred costs	105,791	17,970
Accretion of convertible debentures	59,389	—
Deferred leasehold inducement	—	(1,862)
Changes in non-cash working capital:		
Trade receivables	93,578	(301,502)
Other receivables	6,015	(26,457)
Inventories	12,389	56,842
Prepaid expenses and other	(21,703)	(23,810)
Accounts payable and accrued liabilities	216,922	20,221
Deferred revenue	35,956	(17,976)
<b>Cash used in operating activities</b>	<b>(1,327,740)</b>	<b>(1,564,427)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(1,442)	(138,529)
Proceeds on disposal of property, plant and equipment	2,234	—
<b>Cash provided (used) in investing activities</b>	<b>792</b>	<b>(138,529)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of common shares, and warrants, net of share issue costs and prepaid subscriptions <i>[note 8[a]]</i>	11,425,133	100,481
Proceeds from share subscriptions received prior to close of financing	(766,045)	—
Proceeds from (repayment of) bank indebtedness	(1,070,514)	—
Deferred financing and share issue costs	(139,671)	—
<b>Cash provided by financing activities</b>	<b>9,448,903</b>	<b>100,481</b>
<b>Increase (decrease) in cash during the period</b>	<b>8,121,955</b>	<b>(1,602,475)</b>
Cash, beginning of period	173,094	2,716,902
<b>Cash, end of period</b>	<b>8,295,049</b>	<b>1,114,427</b>
<b>Supplemental disclosure</b>		
Interest paid	99,344	104

*See accompanying notes*

# Response Biomedical Corporation

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006

(Expressed in Canadian dollars)

### 1. BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") for interim financial information and accordingly, do not include all of the information and notes required for complete financial statements. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2005 included in the Response Biomedical Corporation Annual Report filed with the appropriate securities commissions.

These unaudited interim consolidated financial statements have been prepared on a basis consistent with the Company's annual audited consolidated financial statements for the year ended December 31, 2005 and on a going concern basis, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. At March 31, 2006, the Company had incurred significant losses and had an accumulated deficit of \$46,455,320. The Company's ability to continue as a going concern is uncertain and dependent upon its ability to achieve profitable operations, obtain additional capital and dependent on the continued support of its shareholders.

The accompanying unaudited interim consolidated financial statements reflect, in the opinion of management, all adjustments (which include reclassifications and normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at March 31, 2006 and for all such periods presented. Certain comparative figures for prior periods have been reclassified to conform to the current presentation.

The results of operations for the three-month period ended March 31, 2006 are not necessarily indicative of the results for the full year. These unaudited interim consolidated financial statements conform in all material respects with United States generally accepted accounting principles ("U.S. GAAP"), except as disclosed in Note 13.

### 2. SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are disclosed in Note 2 to the audited consolidated financial statements as at December 31, 2005.

## Response Biomedical Corporation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006

(Expressed in Canadian dollars)

#### 3. FINANCIAL INSTRUMENTS

For certain of the Company's financial instruments, including cash, restricted cash, trade receivables, other receivables and accounts payable, the carrying amounts approximate fair values due to their short-term nature. The carrying values of the convertible debentures approximate fair value based on the discounted cash flows at market rates.

The Company performs ongoing credit checks on its customers and requires orders to be prepaid by certain customers. As at March 31, 2006, four [December 31, 2005 - four] customers represent 62% [December 31, 2005 - 76%] of the trade receivables balance.

Financial risk is the risk to the Company's results of operations that arise from fluctuations in interest rates and foreign exchange rates and the degree of volatility of these rates. The Company is subject to foreign exchange risk as substantially all its revenues are denominated in U.S. dollars. The Company mitigates foreign exchange risk as it maintains U.S. dollar bank accounts which are used to pay for expenses in U.S. dollars. Interest rate risk arises due to the Company's loans having fixed and variable interest rates.

#### 4. INVENTORIES

	<b>March 31, 2006</b>	<b>December 31, 2005</b>
	\$	\$
Raw materials	<b>320,770</b>	355,985
Work in process	<b>122,746</b>	37,770
Finished goods	<b>238,010</b>	300,160
	<b>681,526</b>	693,915

## Response Biomedical Corporation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006

(Expressed in Canadian dollars)

#### 5. DEFERRED COSTS

	<b>March 31, 2006</b>	<b>December 31, 2005</b>
	\$	\$
Deferred loan costs	<b>121,832</b>	90,885
Other deferred costs	<b>29,504</b>	—
Less: amortization	<b>(37,544)</b>	(1,360)
Deferred loan costs recorded to share capital upon termination of line of credit	<b>(35,940)</b>	—
Deferred share issue costs recorded to share capital upon close of financing	<b>(32,307)</b>	32,307
	<b>45,545</b>	121,832

On March 31, 2006, the Company had capitalized costs totaling \$151,336 [2005 - \$90,885] and recorded amortization expense in the period ended March 31, 2006 of \$37,544 including amortization of costs capitalized in 2005 [2005 - \$73,047] [see notes 6 and 7]. Deferred loan costs in the amount of \$37,544, related to warrants issued to a shareholder as consideration for providing a guarantee for the

Company's line of credit, were recorded to share capital costs following termination of the line of credit on March 31, 2006 at the request of the guarantor [note 6]. Deferred share issue costs in the amount of \$32,370 were recorded to share capital following closing of the related financing on March 30, 2006 [note 8[a][i]].

#### 6. BANK INDEBTEDNESS

The Company's line of credit in the amount of U.S.\$1,000,000 established with The Toronto Dominion Bank and originally set to expire June 30, 2006 was automatically repaid following the closing of \$12,000,000 private placement. The guarantor exercised 449,250 warrants at an exercise price of \$0.42 per common share that were issued to the guarantor in regard to the line of credit agreement. On March 31, 2006, the line of credit facility was terminated at the request of the guarantor.

Interest expense for the three-month ended March 31, 2006 amounted to \$14,190 [2005 - \$104].

## Response Biomedical Corporation

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006

(Expressed in Canadian dollars)

## 7. CONVERTIBLE DEBENTURES

On October 21, 2005, the Company issued units comprising convertible debentures and common share purchase warrants in the aggregate face amount of \$1,579,000 with a term of three-years bearing interest at 7% per annum payable quarterly. Each unit comprises a \$1,000 principal amount convertible debenture and 1,190 common share purchase warrants for an aggregate amount of warrants with rights to purchase an aggregate amount of 1,879,010 common shares of the Company at a price of \$0.50 per common share for a period of 2 years. The debenture conversion price is \$0.42 per common share for the first two years, and \$0.47 per common share in the third year.

The Company has the right to redeem the debentures for either cash or common shares, at market price, if the volume weighted average trading price exceeds 200% of the conversion price for 10 consecutive trading days.

In accordance with Section 3861 of the CICA Handbook, the proceeds of the debentures have been allocated to their debt and equity components. The liability component has been initially recorded as \$964,545 which was calculated as the present value of the interest and principal amounts discounted at a rate approximating the interest rate that would have been applicable to non-convertible debt at the time the debenture was issued. The residual amount of \$614,955 was recorded in contributed surplus. The liability component is being accreted to fair value over the term of the debenture as a non-cash charge to interest expense. As at March 31, 2006, the accounting value of the debt amounted to \$902,417 [December 31, 2005 - \$1,012,584].

For the three-months ended March 31, 2006, a total of 257,142 shares were issued to debenture holders upon conversion. The non-accreted discount amounts related to the converted debentures were recorded to share capital. Interest expense, including accretion of the debentures, amounted to \$85,154.

As collateral, pursuant to convertible debenture agreements, the debenture holders have been provided a charge over all of the Company's assets.

## Response Biomedical Corporation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006

(Expressed in Canadian dollars)

#### 8. SHARE CAPITAL

[a] **Authorized** - Unlimited common shares without par value.

<b>Issued and outstanding</b>	<b>Number #</b>	<b>Amount \$</b>
<b>Balance, December 31, 2003</b>	53,518,521	28,821,536
Issued for cash:		
Exercise of warrants	4,795,471	2,535,613
Exercise of stock options	1,359,813	640,637
Private placement, net of issue costs [iii and iv]	7,661,667	3,637,470
Issued as a finders fee	100,000	—
Issued as agent work fee	—	(28,478)
<b>Balance, December 31, 2004</b>	67,435,472	35,606,778
Issued for cash:		
Exercise of stock options	265,000	141,085
Share issue costs	—	(9,419)
Issued for non-cash:		
Stock-based compensation related to stock options exercised	—	5,256
<b>Balance, December 31, 2005</b>	67,700,472	35,743,700
Issued for cash:		
Exercise of stock options	170,950	74,550
Conversion of debentures	257,142	108,000
Exercise of warrants	464,720	196,420
Private placement and financing, net of issue costs [i]	24,000,000	6,969,680
Issued for non-cash:		
Joining fees [ii]	133,332	80,000
Stock-based compensation related to stock options and warrants exercised	—	81,219
<b>Balance, March 31, 2006</b>	<b>92,726,616</b>	<b>43,253,569</b>

## Response Biomedical Corporation

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006

(Expressed in Canadian dollars)

### 8. SHARE CAPITAL (cont'd.)

- [i] On March 30, 2006 the Company closed a private placement consisting of 24,000,000 units at a price of \$0.50 per unit, each unit comprising one common share and one-half of one transferable common share purchase warrant, each whole warrant entitles the holder thereof to purchase one common share of the Company at a price of \$0.62 per share until March 30, 2008. Gross proceeds were \$12,000,000 before share issuance costs of \$1,010,320 for net proceeds to the Company of \$10,989,680. The private placement comprised a brokered amount of \$10,000,000 in addition to a non-brokered amount of \$2,000,000.

In connection with the financings, the Company paid cash commissions of \$700,000, legal and professional fees of \$277,601 and finders fees of \$32,719. The Company also paid 1,400,000 agent's warrants, each warrant entitles the holder thereof to purchase one common share of the Company at a price of \$0.62 per share until March 30, 2008.

The 13,400,000 share purchase warrants issued as a result of the private placement have been classified as a separate component of equity, the fair value of which has been determined using the Black-Scholes pricing model using the following assumptions: dividend yield 0.0%; expected volatility 124%; risk-free interest rate 4.01%; and expected life of 2 years. Accordingly, \$4,020,000 of the proceeds has been allocated as the fair value of the warrants, which is recorded in contributed surplus in the consolidated balance sheet.

- [ii] Shares were issued to board members as consideration for joining, and assisting with the restructuring of the board of directors at a deemed price of \$0.60 per share.
- [iii] In December 2004 the Company closed a private placement consisting of 3,911,667 units at a price of \$0.75 per unit for gross proceeds of \$2,933,750, before share issuance costs of \$318,449 for net proceeds of \$2,615,301. The private placement comprised a brokered amount of \$2,227,500 in addition to a non-brokered amount of \$706,250.

Each unit comprised one common share and two one-half of one non-transferable common share purchase warrants. The first half-warrant entitled the holder to purchase one common share of the Company for each whole warrant at a price of \$1.00 per share, expiring on December 30, 2005. The second half-warrant entitled the holder to purchase one common share of the Company for each whole warrant at a price of \$1.25 per share up to December 30, 2005 and at a price of \$1.50 per share from December 31, 2005 expiring on December 30, 2006.

In connection with the financing, the Company paid a cash commission of \$178,200, legal and professional fees of \$65,249 and granted 100,000 units to the agent of this financing.

## Response Biomedical Corporation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006

(Expressed in Canadian dollars)

#### 8. SHARE CAPITAL (cont'd.)

The 100,000 units were valued at the market price of \$75,000 and were recorded as share issuance cost. In addition, the Company granted a non-transferable option entitling the agent to purchase 391,167 units, exercisable at a price of \$0.75 per unit. The option expires on December 30, 2006. The fair value of this unit option of \$50,852, was estimated using the Black-Scholes option pricing model with the following assumptions: dividend yield 0.0%; expected volatility 59%; risk-free interest rate 3.00%; and expected life of 6 months. \$28,478 and \$22,374 of the total fair value of the unit option has been recorded against share capital and the fair value of the warrants, respectively, as share issuance cost with a corresponding credit to contributed surplus.

The 4,011,667 share purchase warrants issued as a result of the private placement were classified as a separate equity component from share capital the fair value of which was determined using the Black-Scholes pricing model using the following weighted average assumptions: dividend yield 0.0%; expected volatility 71.35%; risk-free interest rate 3.00%; and expected life of 1.41 years. Accordingly, \$1,183,734 of the proceeds, net of share issuance cost of \$140,117, was allocated as the fair value of the warrants, which is included in contributed surplus in the consolidated balance sheet.

- [iv] In June 2004, the Company closed a non-brokered private placement consisting of 3,750,000 units at a price of \$0.80 per unit for gross proceeds of \$3,000,000 before a finders fee of \$200,000 and legal cost of \$5,374 for net proceeds of \$2,794,626. Each unit comprised one common share and one half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase one common share of the Company at a price of \$1.15 per share expiring June 21, 2006.

The 1,875,000 share purchase warrants issued as a result of the private placement have been classified as a separate component of equity, the fair value of which has been determined using the Black-Scholes pricing model using the following assumptions: dividend yield 0.0%; expected volatility 72.70%; risk-free interest rate 3.00%; and expected life of 1.41 years. Accordingly, \$663,723 of the proceeds, net of share issuance cost of \$48,777, has been allocated as the fair value of the warrants, which is recorded in contributed surplus in the consolidated balance sheet.

## Response Biomedical Corporation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006

(Expressed in Canadian dollars)

#### 8. SHARE CAPITAL (cont'd.)

##### [b] Stock option plan

On June 21, 2005, the shareholders approved a new stock option plan (the "2005 Plan") to provide an incentive to executive officers, directors, employees and consultants who contribute to the continued success of the Company. The 2005 Plan is effective May 3, 2005 and will terminate May 3, 2007. The exercise price of the options is determined by the Compensation Committee, but generally will be equal to the closing trading price of the common shares on the day immediately preceding the grant date. The options generally vest over a period of 18 months and the term may not exceed five years. Of the 11,500,000 [December 31, 2005 – 11,500,000] stock options authorized for grant under the 2005 Plan, 1,167,800 stock options are available for grant at March 31, 2006.

At March 31, 2006, the following stock options were outstanding:

Range of exercise prices \$	Options outstanding March 31, 2006			Options exercisable March 31, 2006	
	Number of shares under option #	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number of options currently exercisable #	Weighted average exercise price \$
0.27 – 0.39	1,091,700	0.97	0.28	1,023,675	0.27
0.40 – 0.49	227,600	4.13	0.45	121,300	0.44
0.50 – 0.59	5,547,300	3.87	0.55	2,906,938	0.53
0.60 – 0.69	389,300	2.80	0.64	280,375	0.63
0.72 – 0.79	1,421,100	2.63	0.73	1,362,652	0.73
0.80 – 0.89	1,338,400	2.88	0.81	1,166,775	0.81
0.90 – 1.27	64,850	1.66	1.05	64,850	1.05
0.27 – 1.27	10,080,250	3.20	0.58	6,926,565	0.58

The options expire at various dates from May 1, 2006 to March 30, 2011.

## Response Biomedical Corporation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006

(Expressed in Canadian dollars)

#### 8. SHARE CAPITAL (cont'd.)

##### [b] Stock option plan (cont'd.)

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number of optioned common shares #	Weighted average exercise price \$
<b>Balance, December 31, 2003</b>	6,110,350	0.49
Options granted	3,282,700	0.75
Options forfeited	(121,737)	0.73
Options expired	(270,000)	0.42
Options exercised	(1,359,813)	0.47
<b>Balance, December 31, 2004</b>	7,641,500	0.60
Options granted	4,055,150	0.57
Options forfeited	(562,750)	0.81
Options expired	(842,250)	0.72
Options exercised	(265,000)	0.53
<b>Balance, December 31, 2005</b>	10,026,650	0.57
Options granted	3,107,500	0.58
Options forfeited	(10,000)	0.90
Options cancelled	(1,775,000)	0.54
Options expired	(1,097,950)	0.54
Options exercised	(170,950)	0.39
<b>Balance, March 31, 2006</b>	<b>10,080,250</b>	<b>0.58</b>

The exercise price equaled the Fair Market Value on the date prior to the date of grant for all options issued during the three month period ended March 31, 2006 and the years ended 2005 and 2004.

## Response Biomedical Corporation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006

(Expressed in Canadian dollars)

#### 8. SHARE CAPITAL (cont'd.)

##### [c] Stock-based compensation

For the three-month period ended March 31, 2006, the Company recognized compensation expense of \$248,855 [2005 - \$192,000] as a result of stock options granted to officers, directors and employees and recognized compensation expense of \$62,540 [2005 - \$36,432] as a result of stock options granted to consultants, with a corresponding credit to contributed surplus.

The fair value of stock options granted was estimated using the Black-Scholes option pricing model with the following weighted average assumptions and resulting fair value:

	Three Months Ended	
	March 31,	
	2006	2005
Dividend yield	0.0%	0.0%
Expected volatility	102%	103%
Risk-free interest rate	4.0%	3.1%
Expected life	2.0 years	2.4 years
Fair value per share	0.37	0.43

The following table shows stock-based compensation allocated by type of cost:

	Three Months Ended	
	March 31,	
	2006	2005
	\$	\$
Cost of sales - products and services	15,540	20,833
Marketing and business development	56,157	54,486
Research and development	23,638	58,053
General and administrative	216,060	95,060
	311,395	228,432

## Response Biomedical Corporation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006

(Expressed in Canadian dollars)

#### 8. SHARE CAPITAL (cont'd.)

##### [d] Escrow shares

Pursuant to an escrow agreement dated December 31, 1995 and approved by the shareholders on June 19, 1996, 825,000 common shares were held in escrow. At the shareholders meeting on June 21, 2004, the shareholders approved a resolution to amend the terms of the escrow agreement, such that the escrow release is now based on a six-year time release formula, in accordance with the policies of the TSX Venture Exchange. Previously, the escrow shares were to be released based on

the Company's cumulative cash flow. Commencing in March 2005, 825,000 common shares currently held in escrow may be released in twelve tranches over a period of six years, with tranches released every six months. Each of the first four tranches consists of 41,250 common shares or 5% of the total escrow shares and each of the remaining eight tranches consists of 82,500 common shares or 10% of the total escrow shares. At March 31, 2006 no escrow shares have been requested to be released.

##### [e] Common share purchase warrants

At March 31, 2006, the following common share purchase warrants were outstanding:

<b>Number of common shares issuable</b>	<b>Exercise price \$</b>	<b>Expiry date</b>
1,875,000[i]	0.90	June 21, 2006
2,005,832	1.50	December 30, 2006
1,863,540	0.50	October 21, 2007
13,400,000	0.62	March 30, 2008
19,144,372	0.73	

[i] On March 30, 2006, the Company amended the exercise price of 1,875,000 warrants granted on June 21, 2004 and expiring June 21, 2006 from an exercise price of \$1.15 per common share to \$0.90 per common share to reflect the market price of the Company's common shares at the date of issue. The Company is required to pay additional finders fees of \$117,813 upon exercise of these warrants.

## Response Biomedical Corporation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006

(Expressed in Canadian dollars)

#### 8. SHARE CAPITAL (cont'd.)

[f] Loss per common share

	Three Months Ended March 31,	
	2006 \$	2005 \$
<b>Numerator</b>		
Loss for the period	(2,191,405)	(1,577,008)
<b>Denominator</b>		
Weighted average number of common shares outstanding	68,108,037	67,574,453
Weighted average number of common shares outstanding	68,108,037	67,574,453
<b>Loss per common share - basic and diluted</b>	<b>(\$0.03)</b>	<b>(\$0.02)</b>

#### 9. RELATED PARTY TRANSACTIONS

The following payments were made to directors or companies related to or under their control:

	Three Months Ended March 31,	
	2006 \$	2005 \$
<b>General and administrative:</b>		
Strategic consulting services	66,500	18,384
Directors' fees [note 8[a][ii]]	80,000	3,000

All related party transactions are recorded at their exchange amounts, established and agreed between the parties.

## Response Biomedical Corporation

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006

(Expressed in Canadian dollars)

### 10. COMMITMENTS AND CONTINGENCIES

#### [a] Research and license agreements

The Company entered into an exclusive license agreement with the University of British Columbia ("UBC") effective March 1996, as amended October 2003, to use and sublicense certain technology ("Technology") and any improvements thereon, and to manufacture, distribute and sell products in connection therewith. In consideration for these rights, the Company paid a non-refundable license fee of \$5,000 upon execution of the agreement and \$5,000 in January 1997, and is required to pay quarterly royalties based on 2% of revenue generated from the sale of products that incorporate the Technology. In addition, in the event the Company sublicenses the Technology, the Company shall pay to UBC a royalty comprised of 20% of the first \$1,000,000 of sublicensing revenue per calendar year and 10% of sublicensing revenue that exceeds \$1,000,000 in each calendar year. Commencing in 2003 and for a period of nine years thereafter, royalties payable to UBC are subject to a \$2,500 quarterly minimum plus a \$500 annual license maintenance fee. These payments are expensed in the year incurred. The agreement terminates on the expiration date or invalidity of the patents or upon bankruptcy or insolvency of the Company. Pursuant to the agreement, the Company paid \$3,000 in the three months ended March 31, 2006 [2005 – \$3,000]

#### [b] Indemnification of directors and officers

Under the Articles of the Company, applicable law and agreements with its officers, the Company, in circumstances where the individual has acted legally, honestly and in good faith, may or is required to indemnify its directors and officers against certain losses. The Company's liability in respect of the indemnities is not limited. The maximum potential of the future payments is unlimited. However, the Company maintains appropriate liability insurance that limits the exposure and enables the Company to recover any future amounts paid, less any deductible amounts pursuant to the terms of the respective policies, the amounts of which are not considered material.

## Response Biomedical Corporation

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006

(Expressed in Canadian dollars)

### 10. COMMITMENTS AND CONTINGENCIES (cont'd)

#### [c] Indemnification of third parties

The Company has entered into license and research agreements with third parties that include indemnification provisions that are customary in the industry. These guarantees generally require the Company to compensate the other party for certain damages and costs incurred as a result of third party claims or damages arising from these transactions. The nature of the indemnification obligations prevents the Company from making a reasonable estimate of the maximum potential amount that could be required to pay. To date, the Company has not made any indemnification payments under such agreements and no amount has been accrued in the accompanying consolidated financial statements with respect to these indemnification obligations.

#### [d] Supply agreement

The Company entered into a Supply Agreement (the "Agreement") with a supplier, effective September 2003 for certain reagents for the Company's West Nile Virus Test. In addition to paying for the reagent purchased, the Company is required to pay the supplier semi-annual royalties based on 10% of net revenue generated from the sale of the Company's RAMP West Nile Virus Test. The term of the agreement is three years from the effective date and is automatically renewed for each successive period of one year until either party terminates the Agreement. In the three-month period ended on March 31, 2006, the Company incurred \$22,998 [2005 - \$7,828] of royalties to the supplier.

#### [e] Lease agreements

The Company entered into a property sublease agreement to lease 31,920 square feet of multi-use business space. The term of the sublease agreement is October 1, 2005 to December 14, 2007. For the duration of the sublease term, the Company is required to pay the sub-landlord a total gross monthly rent of approximately \$61,000 plus maintenance and utilities. Rent expense for the three-month period ended March 31, 2006 was \$183,000 [2005 - \$52,138].

#### [f] Finder's fees

Finder's fees of \$117,813 are payable upon exercise of the share purchase warrants issued pursuant to the June 2004 private placement [note 8[e]].

## Response Biomedical Corporation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006

(Expressed in Canadian dollars)

#### 11. SEGMENTED INFORMATION

The Company operates primarily in one business segment, the research, development and commercialization of diagnostic technologies, with primarily all of its assets and operations located in Canada. The Company's revenues are generated from product sales primarily in Canada, the United States, Europe, and Asia. Expenses are primarily incurred from purchases made from suppliers in Canada and the United States.

For the three-month period ended March 31, 2006, \$58,295 of the Company's contract service fees and revenues from collaborative research arrangements was generated from one customer [2005 - one customer for a total of \$7,294].

Contract service fees and revenues from collaborative research arrangements by geographic location for the three months ended March 31, 2006 were as follows:

	Three Months Ended	
	March 31,	
	2006	2005
	\$	\$
Canada	—	—
United States	7,294	7,294
Asia	58,295	—
Total	65,589	7,294

## Response Biomedical Corporation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006

(Expressed in Canadian dollars)

#### 11. SEGMENTED INFORMATION (cont'd.)

Product sales by customer location for the three months ended March 31, 2006 were as follows:

	Three Months Ended March 31,	
	2006 \$	2005 \$
Canada	151,604	79,303
United States	440,548	633,042
Europe	41,381	17,711
Asia	30,477	53,005
Middle East	8,586	6,462
Total	672,596	789,523

Product sales by type of product for the three months ended March 31, 2006 were as follows:

	Three Months Ended March 31,	
	2006 \$	2005 \$
Bio-defense products	299,767	620,943
Clinical products	167,274	56,211
Vector products (West Nile Virus)	205,555	112,369
Total	672,596	789,523

## Response Biomedical Corporation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006

(Expressed in Canadian dollars)

#### 12. COMPARATIVE FIGURES

Certain comparative figures have been reclassified from the amounts previously reported to conform to the presentation adopted in the current year.

#### 13. RECONCILIATION OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The Company prepares the unaudited consolidated financial statements in accordance with Canadian GAAP which, as applied in these consolidated financial statements, conform in all material respects to U.S. GAAP, except as described in Note 16 in the Company's annual audited consolidated financial statements for the year ended December 31, 2005.

If U.S. GAAP were followed, the following balance sheet items would be effected:

	March 31, 2006 \$	December 31, 2005 \$
Contributed surplus	9,997,581	5,789,525
Deficit	(46,898,166)	(44,706,761)

[a] Accounts payable and accrued liabilities comprise:

	March 31, 2005 \$	December 31, 2005 \$
Trade accounts payable	1,358,391	1,260,030
Employee-related accruals	304,529	346,133
License fees payable [note 10[a][ii]]	712,720	466,360
Other accrued liabilities	175,794	261,990
	2,551,434	2,334,513

## Response Biomedical Corporation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006

(Expressed in Canadian dollars)

#### 13. RECONCILIATION OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (cont'd.)

##### [b] Pro forma information – Stock-based compensation

The following pro forma financial information presents the loss for the period and basic and diluted loss per common share had the Company recognized stock-based compensation for stock options granted to employees and directors using a fair value based method for all stock-based transactions prior to January 1, 2003. For stock options granted in 2002, the fair value for these options was estimated at the date of grant using a Black-Scholes pricing model with the following weighted-average assumptions: dividend yield - 0%; expected volatility - 102%; risk-free interest rate - 4.0%; and expected average life of the options - 2.07 years. For stock options granted during the three-months ending March 31 2006 and 2005, see note 8[c].

Applying the above, supplemental disclosure of pro forma loss and loss per share is as follows:

	Three Months Ended	
	March 31,	
	2006	2005
	\$	\$
Loss for the period U.S. GAAP	(2,191,405)	(1,577,008)
Add: Stock-based employee compensation expense included in reported loss above	311,395	228,432
Deduct: Total stock-based employee compensation expense using fair value based method for all awards	(311,395)	(228,432)
Pro forma loss for the period	(2,191,405)	(750,504)
Basic and diluted loss per common share		
As reported	(\$0.03)	(\$0.02)
Pro forma	(\$0.03)	(\$0.02)

## Response Biomedical Corporation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006

(Expressed in Canadian dollars)

#### 14. SUBSEQUENT EVENTS

- [a] Subsequent to March 31, 2006, the Company issued 1,525,075 common shares pursuant to the exercise of stock options for gross proceeds of \$852,594 and issued 3,502,377 common shares at a conversion price of \$0.42 per common share pursuant to the conversion of debentures.
- [b] On May 15, 2006, The Company and Shionogi & Co., Ltd. announced the Companies entered into a Marketing and Supply Agreement to commercialize a rapid quantitative RAMP test in Japan for BNP (B-type natriuretic peptide), a proprietary cardiac marker test to assist in the diagnosis and management of congestive heart failure. The Companies also announced that the RAMP test for BNP received regulatory approval in Japan, allowing for its immediate market launch.



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