



## 2007 3rd Quarter Report





## **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 Response Biomedical Corporation ("Response Biomedical" or the "Company") as at and for the years ended December 31, 2006 and 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 the 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, except as required by law. The 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 unaudited management discussion and analysis of financial condition and results of operations has been prepared as at November 29, 2007.

### **OVERVIEW**

Response Biomedical 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 Biomedical currently has eleven tests available for clinical and environmental testing applications and the Company has plans to commercialize additional tests.

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

Clinical products revenue for the three and nine month periods ended September 30, 2007 decreased 46% and 9% to \$486,194 and \$1,544,087 respectively compared to \$902,246 and \$1,690,137 for the same periods in 2006.

Vector products ("West Nile Virus") revenue for the three month period ended September 30, 2007, increased 14% to \$210,152 compared to \$184,134 for the same period in 2006. West Nile Virus products revenue for the nine month period ended September 30, 2007, decreased 20% to \$440,821 compared to \$548,212 for the same period in 2006.

Biodefense products revenue for the three month period ended September 30, 2007, decreased 36% to \$173,392 compared to \$270,126 for the same period in 2006. Biodefense products revenue for the nine month period ended September 30, 2007, increased 8% to \$653,795, compared to \$602,823 for the same period in 2006.

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

Contract service fees and revenue from collaborative research agreements for the three and nine month periods ended September 30, 2007 increased 92% and 2% to \$152,105 and \$463,652, respectively compared to \$79,309 and \$455,193 for the same periods in 2006.

As at September 30, 2007, the Company had \$11,100,086 in cash and cash equivalents, short-term investments, and restricted investments an increase of \$1,933,230 compared to \$9,166,856 as at December 31, 2006. As at September 30, 2007, the Company had a working capital balance of \$11,256,608 an increase of \$1,982,814 compared to \$9,273,793 as at December 31, 2006.

During the nine month period ended September 30, 2007, the Company obtained (net of issue costs) \$420,712 in cash through the issuance of shares related to the exercise of stock options, \$792,489 through the exercise of warrants, and \$11,123,331 through private placement.

Operational milestones during the three month period ended September 30, 2007 included:

- In July 2007, the Company closed a private placement financing for net proceeds of \$11,123,331 whereby it issued 12,000,000 common shares at a price of \$1.00 for each common share; and
- In September 2007, the Company announced the appointment of S. Wayne Kay as Chief Executive Officer. Mr. Kay was also appointed to the Company's Board of Directors.

Subsequent to the end of the quarter, in November 2007, the Company received conditional approval from the Toronto Stock Exchange ("TSX") to list its common shares on the TSX. The Company will issue a news release when final approval has been granted.

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

The Company's consolidated 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. Areas of significant estimates include allowance for bad debt, the estimated life of property, plant and equipment, provisions for inventory obsolescence, accrual for warranty, provisions for sales returns and allowances, stock-based compensation expense, the accreted interest expense related to convertible debentures and valuation allowance on future income tax assets. Actual results could differ from management's estimates.

The Company's significant accounting policies are disclosed in Note 2 to the audited consolidated financial statements as at December 31, 2006. The Company believes that the significant accounting policies disclosed in its audited consolidated financial statements are critical in fully understanding and evaluating its reported interim and annual financial results. Additional information relating to the Company, including its fiscal 2006 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

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

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.

### **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 criteria for deferral and amortization. To date, no development costs have been deferred.

### **Lease inducement**

The lease inducement is a result of negotiations to lease a new premise commencing the first quarter of 2008. It includes an amount for a rent free period, upgrades to the site and building paid for by the landlord and a repayable allowance for additional leasehold improvements. The Company has adopted EIC 21 from The Canadian Institute of Chartered Accountants that recommends the benefits associated with these inducements be recognized over the term of the lease. To date, no benefits have been amortized.

### **Stock-based compensation**

The Company grants stock options to executive officers, directors, employees and consultants pursuant to a stock option plan described in note 12(b) to the unaudited interim consolidated financial statements as at September 30, 2007. 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.

Effective January 1, 2006, the Company changed its policy for accounting for stock-based awards to estimate forfeitures on each reporting period on stock options granted to executive officers, directors, employees and consultants.

### **Warranty accruals**

The Company offers a warranty on its products. The Company estimates costs that 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.

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

### **Convertible debentures**

The carrying value of convertible debentures are calculated as the present value of the required interest and principal payments discounted at a rate approximating the interest rate that would be applicable to non-convertible debentures at the time the debentures are issued. The difference between the face value and the estimated carrying value of debt is recorded as contributed surplus. The carrying value of convertible debentures is accreted to the principal amount using the effective yield method as additional non-cash interest expense over the term of the debentures. Upon conversion, initial amounts recorded to debentures along with the value of conversion options exercised and accreted interest net of cash interest payments are recorded to share capital.

### **CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION**

Effective January 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) under CICA Handbook Section 1530 "Comprehensive Income", and Section 3855 "Financial Instruments – Recognition and Measurement". These accounting policy changes were adopted on a prospective basis with no restatement of prior period consolidated financial statements.

The adoption of these accounting policy changes has not had an impact on the Company's financial position as at September 30, 2007.

### **RESULTS OF OPERATIONS**

For the three and nine month periods ended September 30, 2007 and 2006:

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

Revenues from product sales for the three and nine month periods ended September 30, 2007 decreased 36% and 7% to \$869,738 and \$2,638,191 respectively compared to \$1,356,506 and \$2,841,172 for the same periods in 2006.

Clinical products revenue for the three and nine month periods ended September 30, 2007 decreased 46% and 9% to \$486,194 and \$1,543,087 respectively compared to \$902,246 and \$1,690,137 for the same periods in 2006. The decrease in the third quarter, relative to the same period in 2006, is mainly due to decreased reader sales offset partially by increased test sales. Reader sales are less in the third quarter primarily due to large reader shipments to partners related to market launch and clinical studies in the 2006 period. Test sales have increased mainly as a result of the timing of orders placed by several distributors and a growing customer base. In the long-term, the Company expects clinical products revenue to increase as new products are launched and the Company scales up and automates its manufacturing operations. In the short term, the clinical products revenue may vary depending on the timing of cardiac product orders from its distributors.

West Nile Virus revenue for the three month period ended September 30, 2007, increased 14% to \$210,152 compared to \$184,134 for the same period in 2006. West Nile Virus products revenue for the nine month period ended September 30, 2007, decreased 20% to \$440,821 compared to \$548,212 for the same period in 2006. This increase is primarily due to the seasonal nature of this product line. In the future, the Company expects the sales of West Nile Virus products to continue at similar or declining levels.

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

Biodefense products revenue for the three month period ended September 30, 2007, decreased 36% to \$173,392 compared to \$270,126 for the same period in 2006. Biodefense products revenue for the nine month period ended September 30, 2007, increased 9% to \$653,795, compared to \$602,823 for the same period in 2006. The variability is primarily due to the timing of significant one-time bio-defense system orders. In the future, the Company expects this variability to continue.

Contract service fees and revenue from collaborative research agreements for the three and nine month periods ended September 30, 2007 increased 92% and 2% to \$152,105 and \$463,652, respectively compared to \$79,309 and \$455,193 for the same periods in 2006. The variability is primarily due to the timing of the performance of services required to recognize service revenue from the Company's collaborations. The Company expects this variability to continue.

Included in total revenues of \$1,021,843 and \$3,101,843 for the three and nine month periods ended September 30, 2007 [2006 - \$1,435,815 and \$3,296,365] was \$44,164 and \$95,028 [2006 - \$43,826 and \$164,819] respectively of revenue recognized that was deferred from prior periods and did not result in cash in the current periods.

Cost of sales for the three and nine month periods ended September 30, 2007 was \$803,009 and \$2,214,902 compared to \$788,367 and \$1,716,442 in 2006, an increase of 2% and 29% respectively. Cost of product sales includes direct manufacturing labour and materials costs, allocated overhead including depreciation, and non-cash stock-based compensation related to the granting of stock options to employees and consultants engaged in manufacturing activities.

Overall gross margin for the three and nine month periods ended September 30, 2007 was 21% and 29%, respectively compared to 45% and 48% for the same periods in 2006. The decrease in gross margin is primarily due to a decrease in higher margin reader sales and increased costs related to the implementation of new manufacturing equipment, processes and personnel as a result of the Company's scale up efforts. Further contributing to the reduced margin are increased payroll, recruiting costs and other expenses incurred to support the scale up of manufacturing operations. Going forward, the Company expects variation in gross margin based on product mix and the scale up and automation of its manufacturing operations in anticipation of growth in its clinical products business.

### **Expenses**

Research and development expenditures for the three and nine month periods ended September 30, 2007 increased to \$1,433,447 and \$5,370,281 from \$1,284,753 and \$3,783,792 for the same period in 2006, an increase of 12% and 42% respectively. The increase in the third quarter of 2007, as compared to the same three month period in 2006, is primarily due to increased research and development activities on various projects in the amount of \$160,000, higher consulting costs incurred for new product regulatory submissions of \$30,000, higher costs related to submitting and maintaining patent filings in the amount of \$27,000 and higher payroll costs to support increased product development activity totaling \$131,000. This increase was offset by lower development costs of a next generation RAMP reader in the amount of \$180,000 and a decrease in overhead allocation related to administrative expenses of \$21,000.

Marketing and business development expenses for the three and nine month period ended September 30, 2007 were \$553,039 and \$1,881,180 compared to \$684,260 and \$1,775,883 for the same periods in 2006, a decrease and increase of 19% and 6%, respectively. The decrease in the third quarter of 2007, as compared to the same three month period in 2006, is primarily due to lower costs

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

related to clinical support activities and related payroll expenses totaling \$35,000, lower legal expenses incurred for business development totaling \$32,000, a reduction in selling expenses of \$52,000 primarily related to lower advertising costs, and lower travel expenses totaling \$20,000. This decrease has been offset slightly by an increase in utilities, maintenance and administrative charges of \$14,000.

General and administrative expenses for the three and nine month periods ended September 30, 2007 were \$1,123,732 and \$3,023,318 compared to \$538,157 and \$1,944,342 for the same periods in 2006, an increase of 107% and 55%, respectively. The increase in the third quarter of 2007, as compared to the same three month period in 2006, is primarily due to an additional rent expense charge of \$157,000 related to the rent free period of the new facility lease agreement, higher payroll and recruitment costs incurred for human resources, investor relations and accounting personnel totaling \$102,000, additional executive salary and recruitment costs totaling \$147,700, incentive plan accruals totaling \$25,000, compliance with US Sarbanes-Oxley Act of 2002 totaling \$87,000, and higher audit and insurance expenses totaling \$52,000.

### **Other Income/Expenses**

For the three and nine months periods ended September 30, 2007, interest expense for debentures, including accretion, the line of credit and other interest expense amounted to \$Nil and \$851, respectively compared to \$139 and \$63,783 for the same periods in 2006.

Amortization of deferred financing costs for the three and nine months period ended September 30, 2007 was \$Nil and \$Nil [2006 - \$Nil and \$53,585]. The 2006 costs relate to the amortization of the estimated fair value of warrants issued to a guarantor as part of a credit facility agreement and finance costs related to convertible debentures issued in October 2005.

During the three and nine month periods ended September 30, 2007, the Company earned interest income of \$110,815 and \$248,226 [2006 - \$35,203 and \$98,398], respectively relating to funds on deposit.

During the three and nine month periods ended September 30, 2007, the Company had foreign exchange losses of \$111,661 and \$460,632 [2006 - loss of \$6,674 and gain of \$46,070], respectively. The increased foreign exchange loss is due to significant balances of cash and cash equivalents and short term investments held in US dollars affected negatively by a decline in the value of the US dollar as compared to the Canadian dollar. The Company uses the exchange rate posted on the Federal Reserve Bank of New York website ([www.ny.frb.org](http://www.ny.frb.org)) for the last business day of the period. The exchange rate as at September 30, 2007 was \$0.9959 US per CDN dollar [September 30, 2006 - \$1.1151, December 31, 2006 - \$1.1652].

### **Loss**

For the three and nine month periods ended September 30, 2007, the Company reported a loss of \$2,892,230 and \$9,601,095 or \$0.02 and \$0.08 per share, respectively compared to a loss of \$1,833,288 and \$5,896,716 or \$0.02 and \$0.07 per share for the same periods in 2006. The increase in loss for the nine month period ended September 30, 2007 compared to the same period in 2006 is primarily due to increased research and development activity, additional costs related to compliance with the Sarbanes-Oxley Act, additional rent expense charge for the rent free period of the new facility lease agreement, and foreign exchange losses as a result of cash and cash equivalents and short-term investments held in US dollars and higher payroll expenses.

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

## SUMMARY OF QUARTERLY RESULTS

The table below sets forth selected data derived from the Company's unaudited interim consolidated financial statements prepared in accordance with Canadian GAAP for the eight previous quarters ended September 30, 2007.

	2007	2007	2007	2006	2006	2006	2006	2005
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	\$	\$	\$	\$	\$	\$	\$	\$
Total Revenue	1,021,843	999,536	1,080,464	1,123,693	1,435,815	1,122,365	738,185	1,043,215
Gross Profit	218,834	267,555	400,552	528,723	647,448	603,615	328,860	563,645
Gross Margin	21%	27%	37%	47%	45%	54%	45%	54%
Expenses	3,110,219	4,007,605	3,156,956	4,032,526	2,507,170	2,605,643	2,391,204	3,545,196
Loss	2,892,230	3,987,766	2,721,099	3,431,451	1,833,288	1,872,023	2,191,405	3,031,101
Loss per Share – Basic and Diluted	0.02	0.03	0.02	0.03	0.02	0.02	0.03	0.04
Total Assets	16,473,216	7,593,556	10,431,436	12,966,931	5,936,076	8,206,769	10,164,602	2,253,939

Quarter-to-quarter variability in revenue is driven primarily by the following factors:

- § The timing of cardiac product orders from the Company's distributors in China and Japan;
- § The timing of achievement of services contract milestones and corresponding revenue recognition and completion of development contracts;
- § The timing of significant bio-defense system orders; and
- § Seasonality related to the demand for RAMP West Nile Virus products as well as significant penetration of this target market.

The losses reported are primarily the result of 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. In 2005, the Company experienced greater direct sales, marketing and business development expenditures and since the first quarter of 2006 altered its sales strategy putting a relatively greater emphasis on the utilization of distributors and partners.

## LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its operations primarily through equity and debt financings. As of September 30, 2007, the Company has raised approximately \$70.3 million from the sale and issuance of equity securities and convertible debt, net of issue costs.

The Company's working capital as at September 30, 2007 was \$11,256,607 an increase of \$1,982,814 from working capital of \$9,273,793 as at December 31, 2006. With the growth of its operations, the Company's requirements for working capital are increasing and during the quarter the Company closed a private placement equity financing generating net proceeds of \$11,123,331 comprising of 12,000,000 common shares at a price of \$1.00 per share. For the nine month period ended September 30, 2007, the Company relied primarily on cash on hand and exercise of share purchase warrants and stock options to fund its expenditures.

For the three and nine month periods ended September 30, 2007, the Company incurred losses of \$2,892,230 and \$9,601,095, respectively versus losses of \$1,833,288 and \$5,896,716 for the same periods in 2006. Until the Company receives greater revenue from product sales, it expects that it

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

will continue to fund its operations from a combination of the funds on hand, exercise of warrants and options, issuance of equity securities, contract service fees, revenues from collaborative research arrangements, and debt financing, as appropriate and where available.

As at September 30, 2007, the Company had 13,943,874 warrants outstanding at exercise prices of \$0.50 and \$0.62 per share, which if fully exercised, would result in the receipt of approximately \$8.45 million. The Company also had 10,760,275 stock options outstanding of which 3,039,972 were exercisable at prices between \$0.33 and \$1.10 per share and which, if fully exercised, would result in the receipt of approximately \$1.98 million.

### MATERIAL COMMITMENTS AND CONTRACTUAL OBLIGATIONS

As at September 30, 2007, the Company had the following material commitments and contractual obligations.

<b>Commitments and Obligations</b>	<b>Total</b>	<b>&lt; 1 Year</b>	<b>1 – 3 Years</b>	<b>4 – 5 Years</b>	<b>&gt; 5 Years</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
License Fees	61,000	11,000	33,000	17,000	—
Facility Subleases	34,586,557	1,557,541	4,234,001	4,344,486	24,450,529
Equipment	73,760	73,760	—	—	—
Design and Engineering Services	65,352	65,352	—	—	—
<b>Total</b>	<b>34,786,669</b>	<b>1,707,653</b>	<b>4,267,001</b>	<b>4,361,486</b>	<b>24,450,529</b>

### OFF BALANCE SHEET ARRANGEMENTS

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

### OUTSTANDING SHARE CAPITAL

As at September 30, 2007 there were 127,572,491 common shares issued and outstanding for a total of \$69,669,857 in share capital, 10,760,275 (of which 3,039,972 are exercisable) common shares issuable upon the exercise of outstanding stock options at a weighted-average exercise price of \$0.65 per share, 2,791,237 common shares reserved for future grant or issuance under the Company's stock option plan and 13,943,874 common shares issuable upon the exercise of outstanding warrants at a weighted average exercise price of \$0.61 per share.

As at November 29, 2007 there were 129,902,631 common shares issued and outstanding for a total of \$70,840,727 in share capital, 10,180,375 (of which 2,548,057 are exercisable) common shares issuable upon the exercise of outstanding stock options at a weighted-average exercise price of \$0.65 per share, 2,815,337 common shares reserved for future grant or issuance under the Company's stock option plan and 12,169,534 common shares issuable upon the exercise of outstanding warrants at a weighted average exercise price of \$0.62 per share.

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

## TRANSACTIONS WITH RELATED PARTIES

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>General and administrative</b>				
Legal fees	45,583	—	62,325	—
Strategic consulting services	—	—	—	66,500
Directors' fees [note11[a]]	—	—	—	80,000

In 2006, the Company entered into an agreement with a development partner, whereby the development partner became a shareholder of the Company. During the three and nine month periods ended September 30, 2007, the Company earned revenues totaling \$152,105 and \$464,899 [2006 – \$Nil and \$Nil] respectively, subsequent to the development partner becoming a related party. As at September 30, 2007 \$150,803 of the accounts receivable related to this revenue remained outstanding and was included in the balance of trade receivables.

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

## FINANCIAL INSTRUMENTS

For certain of the Company's financial instruments, including cash and cash equivalents, short-term investments, restricted investment, trade receivables, other receivables, accounts payable and accrued liabilities, the carrying amounts approximate fair values due to their short-term nature.

The Company performs ongoing credit checks on its customers and requires orders to be prepaid by certain customers. As at September 30, 2007, four [December 31, 2006 - four] customers represent 68% [December 31, 2006 - 80%] of the trade receivables balance. The Company has good credit history with these customers and the amounts due from them are generally received as expected.

Financial risk is the risk to the Company's results of operations that arises 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 a majority of its revenues are denominated in US dollars. The Company mitigates foreign exchange risk by maintaining a US dollar bank account for all US revenues and expenditures, thereby minimizing currency exchange. Interest rate risk arises due to the Company's cash and cash equivalents, short-term investments and restricted investment in variable rate securities.

## DISCLOSURE AND FINANCIAL REPORTING CONTROLS

Certain weaknesses were identified in the internal controls over financial reporting. Due to the size of the Company, it is not feasible to achieve complete segregation of duties to provide effective controls over financial reporting. Also, the Company may not have the necessary in-house knowledge to address complex accounting, taxation and legal issues that may arise. These weaknesses and their related risks are not uncommon in a company of the size of Response Biomedical because of limitations in size and number of staff. In the fourth quarter of 2006, the Company made significant changes to its controls in the course of implementing a new enterprise

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

resource planning system. The Company's 2006 audited consolidated financial statements and annual report were prepared using the legacy accounting system as a check on the new system. The legacy accounting system was no longer run in parallel to the new system as of January 1, 2007. Management believes that the validation provided by the parallel test in the fourth quarter of 2006 and the implementation of additional reporting and monitoring tools in 2007, reasonably assures the reliability of the new system. Management intends to incorporate further enhancements over the coming months. Management employs compensating controls, primarily at the entity level, to mitigate the risk of a material misstatement in financial reporting.

### 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:

1) **Financial results:** The Company's inability to generate sufficient cash flows may result in it not being able to continue as a going concern. The Company's audited consolidated financial statements have been prepared on a going concern basis, which presumes the realization of assets and the settlement of liabilities in the normal course of operations. The Company has incurred significant losses to date and as at September 30, 2007 had an accumulated deficit of \$63,193,177 and has not generated positive cash flow from operations. In view of these conditions, the ability of the Company to continue as a going concern is dependant upon its ability to obtain additional financing and on achieving profitable operations. The outcome of these matters cannot be predicted at this time. The consolidated financial statements for the periods presented do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business; 2) **Need to raise additional capital:** The Company has incurred substantial operating losses and 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. When necessary, the Company will pursue arrangements for additional capital, however there is no certainty that funds will be available on acceptable terms, if at all. If additional funds are not obtained when needed, the Company would have to curtail its current operations resulting in a material adverse impact on its business; 3) **Managing growth:** The Company may not be able to effectively and efficiently manage the planned growth of its operations and, as a result, it may find itself unable to effectively compete in the marketplace with its products resulting in lost revenue, poor operational performance and sustained losses; 4) **Suppliers:** Some of the Company's raw materials and services are provided by sole-source suppliers. In the event a sole-sourced material or service became unavailable, there may be a delay in obtaining an alternate source, and the alternate source may require significant development and time to meet product specifications; 5) **Alliances:** The Company relies significantly on strategic alliance partners to develop and commercialize products and on third party distributors to market and sell its products. If the Company is unable to successfully establish or maintain acceptable agreements with potential and existing partners and distributors, its ability to access various markets profitably with its products may be significantly restricted. If the Company's partners and distributors are unable to execute on their sales and marketing strategies, the Company's product sales may be reduced or restricted; 6) **Intellectual property:** 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. There are many patent claims in the area of lateral flow immunoassays and some patent infringement lawsuits have occurred amongst parties other than ourselves, with respect to patents in this area; 7) **Product liability:** The Company may be subject to product liability claims,

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

which may adversely affect its operations. Although the Company currently maintains product liability insurance, it cannot assure that this insurance is adequate, and, at any time, it is possible that such insurance coverage may cease to be available on commercially reasonable terms, or at all;

8) **Market, competition and technological risk:** 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 the competitive performance of its products. Particularly important to its future results of operations will be the Company's success in developing the point-of-care NT-proBNP market; 9) **New instrument:** The Company is currently in the process of developing a new instrument projected to be commercially available late in 2007. Certain features of the new instrument, including higher throughput over the existing instrument, are critical to the successful launch and adoption of the Company's RAMP NT-proBNP Test and the Flu A+B test to be sold by 3M. There is no assurance that the instrument will be completed in a timeframe optimal to the launch of the NT-proBNP Test and the Flu A+B test, that the design of the instrument will meet all the needs of the market place or that the new instrument can be routinely manufactured to specifications; 10) **Industry consolidation:** The market for immunoassay-based diagnostic testing is rapidly changing as a result of recent consolidation in the industry. The impact of consolidation of several major competitors in the market for immunoassay testing is difficult to predict and may harm the business; 11) **Government regulation:** For clinical testing applications the Company requires a number of regulatory clearances to market its products and obtaining these clearances can be uncertain, costly and time consuming; the Company is also subject to ongoing regulation of the products for which it has already obtained regulatory clearance, among other things, which may result in significant costs or in certain circumstances, the suspension or withdrawal of previously obtained clearances; 12) **Third-party reimbursement:** Sales and pricing of medical products, including the Company's, are affected by third-party reimbursement. Depending on manufacturing costs, the Company may not be able to profitably sell its products at prices that would be acceptable to third party reimbursement programs; 13) **Seasonality:** The business and industry is affected by seasonality, including governmental budget cycles. The Company may not be able to successfully scale up operations to meet demand during peak seasonal periods or scale down operations during periods of low demand, which could result in lost revenue and/or adversely affect cash flows and losses; 14) **Financial and accounting regulation:** Evolving regulation of corporate governance and public disclosure may result in additional expenses and continuing uncertainty; investor confidence and share value may be adversely impacted if the Company's independent auditors are unable to provide it with the attestation of the adequacy of the Company's internal controls over financial reporting, as required by Section 404 of the US Sarbanes-Oxley Act of 2002; Future changes in financial accounting standards or practices or existing taxation rules or practices may cause adverse unexpected revenue and/or expense fluctuations and affect the reported results of operations; valuation of stock-based payments, which the Company is required to perform for purposes of recording compensation expense under FAS 123(R), involves significant assumptions that are subject to change and difficult to predict; and 15) **Interest rate and foreign exchange:** The Company is subject to risk that the Company's results of operations are affected by 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 a majority of its revenues are denominated in US dollars. The Company mitigates foreign exchange risk by maintaining a US dollar bank account for all US revenues and expenditures, thereby minimizing currency exchange. Interest rate risk arises due to the Company's cash and cash equivalents, short-term investments and restricted investment being invested in variable rate securities and in the future by the Company's loans which may have fixed and variable interest rates.

Additional information relating to the Company is available by accessing the SEDAR website at [www.sedar.com](http://www.sedar.com), including information about risks, uncertainties and other factors which may cause

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

the actual results, performance or achievement of the Company, or industry results, to be materially different from any future results. Such factors include, among others, those described in the Company's annual report on Form 40-F.

Consolidated Financial Statements

**Response Biomedical Corporation**

(Unaudited - Expressed in Canadian dollars)

Third Quarter Report

September 30, 2007

**NOTICE TO READER**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited interim consolidated financial statements for the period ended September 30, 2007.

**Response Biomedical Corporation**

Incorporated under the laws of British Columbia

**CONSOLIDATED BALANCE SHEETS**

[See Note 1 - Basis of Presentation and Going Concern Uncertainty]

(Expressed in Canadian dollars)

Unaudited

**September 30, 2007**      **December 31, 2006**

\$

\$

**ASSETS****Current**

Cash and cash equivalents	10,199,022	5,707,076
Short-term investments ( <i>market value - \$30,454</i> )	30,454	3,459,780
Trade receivables, net [ <i>note 4</i> ]	584,688	568,207
Other receivables	410,131	74,453
Inventories [ <i>note 5</i> ]	1,343,847	1,189,111
Prepaid expenses and other [ <i>note 14[e][ii]</i> ]	601,646	368,036
Deferred costs - current portion [ <i>note 7</i> ]	10,200	10,200
<b>Total current assets</b>	<b>13,179,988</b>	<b>11,376,863</b>
Restricted investment ( <i>market value - \$870,610</i> ) [ <i>note 14[e][ii]</i> ]	870,610	—
Property, plant and equipment [ <i>note 6</i> ]	2,420,092	1,579,892
Deferred costs [ <i>note 7</i> ]	2,526	10,176
	<b>16,473,216</b>	<b>12,966,931</b>

**LIABILITIES AND SHAREHOLDERS' EQUITY****Current**

Accounts payable and accrued liabilities	1,750,605	1,995,593
Lease inducement - current portion [ <i>note 10</i> ]	30,446	—
Deferred revenue - current portion [ <i>note 11</i> ]	142,329	107,477
<b>Total current liabilities</b>	<b>1,923,380</b>	<b>2,103,070</b>
Lease inducement [ <i>note 10</i> ]	654,168	—
Deferred revenue [ <i>note 11</i> ]	82,458	108,685
	<b>2,660,006</b>	<b>2,211,755</b>

Commitments and contingencies [*note 14*]**Shareholders' equity**

Share capital [ <i>note 12[a]</i> ]	69,669,857	56,868,133
Contributed surplus [ <i>note 12[a]</i> ]	7,336,530	7,479,125
Deficit	(63,193,177)	(53,592,082)
<b>Total shareholders' equity</b>	<b>13,813,210</b>	<b>10,755,176</b>
	<b>16,473,216</b>	<b>12,966,931</b>

See accompanying notes

On behalf of the Board:

S. Wayne Kay  
DirectorRichard K. Bear  
Director

## Response Biomedical Corporation

### CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT

(Unaudited – Expressed in Canadian Dollars)	Three Months Ended		Nine Months Ended	
	September 30, 2007	2006	September 30, 2007	2006
	\$	\$	\$	\$
<b>REVENUE</b>				
Product sales <i>[notes 13 and 15]</i>	869,738	1,356,506	2,638,191	2,841,172
Contract service fees and revenues from collaborative research arrangements <i>[notes 13 and 15]</i>	152,105	79,309	463,652	455,193
<b>Total revenue</b>	<b>1,021,843</b>	<b>1,435,815</b>	<b>3,101,843</b>	<b>3,296,365</b>
Less: cost of sales - products and services <i>[notes 7 and 12[c]]</i>	803,009	788,367	2,214,902	1,716,442
<b>Gross profit</b>	<b>218,834</b>	<b>647,448</b>	<b>886,941</b>	<b>1,579,923</b>
<b>EXPENSES</b>				
Research and development <i>[note 12[c]]</i>	1,433,447	1,284,753	5,370,281	3,783,792
Marketing and business development <i>[note 12[c]]</i>	553,039	684,260	1,881,180	1,775,883
General and administrative <i>[notes 12[c] and 13]</i>	1,123,732	538,157	3,023,318	1,944,342
<b>Total expenses</b>	<b>3,110,218</b>	<b>2,507,170</b>	<b>10,274,779</b>	<b>7,504,017</b>
<b>OTHER EXPENSES (INCOME)</b>				
Interest expense <i>[notes 8 and 9]</i>	—	139	851	63,783
Interest income	(110,815)	(35,203)	(248,226)	(98,398)
Deferred costs <i>[note 7]</i>	—	—	—	53,585
Loss (Gain) on disposal of assets	—	1,956	—	(278)
Foreign exchange (gain) loss	111,661	6,674	460,632	(46,070)
<b>Total other expenses (income)</b>	<b>846</b>	<b>(26,434)</b>	<b>213,257</b>	<b>(27,378)</b>
<b>Loss and comprehensive loss for the period</b>	<b>(2,892,230)</b>	<b>(1,833,288)</b>	<b>(9,601,095)</b>	<b>(5,896,716)</b>
Deficit, beginning of period	(60,300,947)	(48,327,343)	(53,592,082)	(44,263,915)
<b>Deficit, end of period</b>	<b>(63,193,177)</b>	<b>(50,160,631)</b>	<b>(63,193,177)</b>	<b>(50,160,631)</b>
<b>Loss per common share - basic and diluted</b>				
<i>[note 12[f]]</i>	(\$0.02)	(\$0.02)	(\$0.08)	(\$0.07)
Weighted average number of common shares outstanding <i>[note 12[f]]</i>	124,402,665	97,788,943	117,528,178	87,584,011

See accompanying notes

# Response Biomedical Corporation

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited – expressed in Canadian dollars)	Three Months Ended		Nine Months Ended	
	September 30, 2007	2006	September 30, 2007	2006
	\$	\$	\$	\$
<b>OPERATING ACTIVITIES</b>				
Loss for the period	(2,892,230)	(1,833,288)	(9,601,096)	(5,896,716)
Add (deduct) items not involving cash:				
Amortization of property, plant and equipment	81,579	60,723	234,995	159,605
Loss (Gain) on disposal of property, plant and equipment	—	1,956	—	(278)
Stock-based compensation [note 12[c]]	110,915	65,152	322,598	613,684
Amortization of deferred costs [note 7]	2,550	2,550	7,650	61,235
Accretion of convertible debentures [note 9]	—	—	—	11,645
Director's fee	—	—	—	80,000
Lease inducement received from rent-free period [note 10]	155,858	—	431,028	—
Changes in non-cash working capital:				
Trade receivables	210,447	347,516	(16,481)	(25,659)
Other receivables related to lease inducement	(239,867)	—	(239,867)	—
Other receivables	(7,346)	24,121	(95,811)	(50,786)
Inventories	35,761	(267,319)	(154,736)	(457,117)
Prepaid expenses and other	(64,614)	(108,340)	(233,610)	(321,712)
Accounts payable and accrued liabilities	(425,426)	(521,573)	(408,254)	(1,326,111)
Deferred revenue	(12,881)	19,016	8,625	(13,379)
Foreign exchange (gain)/loss	88,689	(1,401)	282,406	30,995
<b>Cash used in operating activities</b>	<b>(2,956,565)</b>	<b>(2,210,887)</b>	<b>(9,462,553)</b>	<b>(7,134,594)</b>
<b>INVESTING ACTIVITIES</b>				
Short term investments	63,031	—	3,429,326	—
Restricted investment [note 14 [e][ii]]	—	—	(870,610)	—
Purchase of property, plant and equipment	(270,241)	(269,701)	(821,610)	(802,952)
Leasehold improvements - lease inducement [note 10]	(208,175)	—	(208,175)	—
Proceeds on disposal of property, plant and equipment	—	—	—	2,915
<b>Cash used in investing activities</b>	<b>(415,385)</b>	<b>(269,701)</b>	<b>1,528,931</b>	<b>(800,037)</b>
<b>FINANCING ACTIVITIES</b>				
Change in accounts payable attributed to financing activities associated with lease inducements	163,267	—	163,267	—
Repayable lease inducement received [note 10]	208,175	—	208,175	—
Proceeds from issuance of common shares, and warrants, net of share issue costs and prepaid subscriptions [notes 9 and 12[a]]	11,526,573	—	12,336,532	11,321,200
Proceeds from (repayment of) bank indebtedness	—	—	—	(1,070,514)
<b>Cash provided by financing activities</b>	<b>11,898,015</b>	<b>—</b>	<b>13,184,413</b>	<b>10,250,686</b>
<b>Effect of changes in foreign currency rates on cash and cash equivalents</b>	<b>(88,689)</b>	<b>1,401</b>	<b>(282,406)</b>	<b>(30,995)</b>
<b>Increase (decrease) in cash during the period</b>	<b>8,437,376</b>	<b>(2,479,187)</b>	<b>4,491,946</b>	<b>2,285,060</b>
Cash and cash equivalents, beginning of period	1,761,646	4,937,341	5,707,076	173,094
<b>Cash and cash equivalents, end of period</b>	<b>10,199,022</b>	<b>2,458,154</b>	<b>10,199,022</b>	<b>2,458,154</b>
<b>Components of Cash</b>				
Cash and cash equivalents	10,199,022	2,458,154	10,199,022	2,458,154
Short-term investments	30,454	—	30,454	—
Restricted investment [note 14 [e][ii]]	870,610	—	870,610	—
<b>Cash and cash equivalents, short term investments and restricted investment, end of period</b>	<b>11,100,086</b>	<b>2,458,154</b>	<b>11,100,086</b>	<b>2,458,154</b>
<b>Supplemental Disclosure</b>				
Interest paid in cash	—	139	851	63,783
Non-cash activity:				
Non-repayable leasehold improvement allowance	45,411	—	45,411	—

See accompanying notes

## **Response Biomedical Corporation**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2007

(Unaudited - Expressed in Canadian dollars)

#### **1. BASIS OF PRESENTATION AND GOING CONCERN UNCERTAINTY**

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 annual 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, 2006 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, 2006 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.

The Company's inability to generate sufficient cash flows may result in it not being able to continue as a going concern. The Company has incurred significant losses to date and as at September 30, 2007 had an accumulated deficit of \$63,193,177 and has not generated positive cash flow from operations. Management has been able, thus far, to finance the operations through a series of debt and equity financings. The Company has also received cash from the exercise of outstanding stock options during the three and nine month periods ended September 30, 2007 in the amount of \$186,842 and \$420,712 and received cash from the exercise of outstanding warrants during the three and nine month periods ended September 30, 2007 in the amount of \$216,399 and \$792,489. In July 2007, the Company closed a private placement equity financing generating net proceeds of \$11,123,331 comprising of 12,000,000 common shares at a price of \$1.00 per share. Management will continue, as appropriate, to seek other sources of financing on favourable terms; however, there are no assurances that any such financing can be obtained on favourable terms, if at all. In view of these conditions, the ability of the Company to continue as a going concern is dependant upon its ability to obtain such financing and, ultimately, on achieving profitable operations. The outcome of these matters cannot be predicted at this time. The unaudited interim consolidated financial statements for the periods presented do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

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 at September 30, 2007 and its results of operations and its cash flows for the period then ended and for all such periods presented.

## **Response Biomedical Corporation**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2007

(Unaudited - Expressed in Canadian dollars)

#### **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, 2006, except the addition of restricted investment and deferred lease inducement as follows:

##### **Restricted Investment**

The Company's restricted investment is recorded at the lower of cost plus accrued interest and market value and represents a long-term security deposit for the new leased premise as outlined in Note 14 [e][ii].

##### **Deferred Lease Inducement**

The deferred lease inducement credit arising from both repayable and non-repayable leasehold improvement allowances from the landlord and deferred rental payments are amortized over the term of the lease on a straight-line basis.

#### **3. CHANGES IN ACCOUNTING POLICIES**

There were no significant adoptions or changes in accounting policies since the fiscal year ended December 31, 2006, except as follows:

Effective January 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) under CICA Handbook Section 1530 "Comprehensive Income", and Section 3855 "Financial Instruments – Recognition and Measurement". These accounting policy changes were adopted on a prospective basis with no restatement of prior period-consolidated financial statements.

##### **Comprehensive Income**

Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with Canadian GAAP.

##### **Financial Instruments – Recognition and Measurement**

Under Section 3855, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair

## Response Biomedical Corporation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007

(Unaudited - Expressed in Canadian dollars)

#### 3. CHANGES IN ACCOUNTING POLICIES (cont'd)

value except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend

on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income.

Upon adoption of these new standards, the Company designated its cash and cash equivalents, short-term investments, and restricted investment as held-for-trading. Trade receivables and other receivables are classified as loans and receivables. Accounts payable and accrued liabilities are classified as other financial liabilities.

The adoption of these accounting policy changes has not had an impact on the Company's financial position as at September 30, 2007.

#### 4. FINANCIAL INSTRUMENTS

For certain of the Company's financial instruments, including cash and cash equivalents, short-term investments, trade receivables, other receivables, restricted investment, accounts payable and accrued liabilities, the carrying amounts approximate fair values due to their short-term nature.

The Company performs ongoing credit checks on its customers and requires orders to be prepaid by certain customers. As at September 30, 2007, four [December 31, 2006 - four] customers represent 68% [December 31, 2006 - 80%] of the trade receivables balance. The Company has good credit history with these customers and the amounts due from them are generally received as expected.

Financial risk is the risk to the Company's results of operations that arises 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 most of its revenues are denominated in US dollars. Significant losses may occur due to significant balances of cash and cash equivalents and short-term investments held in US dollars that may be affected negatively by a decline in the value of the US dollar as compared to the Canadian dollar. The Company mitigates foreign exchange risk by maintaining a US dollar bank account for all US revenues and expenditures, thereby minimizing currency exchange. Interest rate risk arises due to the Company's cash and cash equivalents, short-term investments and restricted investment being invested in variable rate securities.

#### 5. INVENTORIES

	September 30, 2007	December 31, 2006
	\$	\$
Raw materials	606,242	574,720
Work in process	405,917	257,718
Finished goods	331,688	356,673
	<b>1,343,847</b>	<b>1,189,111</b>

**Response Biomedical Corporation**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2007

(Unaudited - Expressed in Canadian dollars)

**6. PROPERTY, PLANT AND EQUIPMENT**

	Cost \$	Accumulated amortization \$	Net book value \$
<b>September 30, 2007</b>			
Office furniture and equipment	20,789	20,789	—
Office computer equipment	150,620	85,618	65,002
Laboratory furniture and equipment	471,425	425,535	45,890
Laboratory computer equipment	362,691	302,849	59,842
Computer software	307,096	158,045	149,051
Manufacturing equipment	1,601,598	168,493	1,433,105
Manufacturing molds	533,401	167,200	366,201
Leasehold improvements	82,767	35,351	47,416
Leasehold improvements inducement	253,585	—	253,585
	<b>3,783,972</b>	<b>1,363,880</b>	<b>2,420,092</b>
<b>December 31, 2006</b>			
Office furniture and equipment	20,789	20,789	—
Office computer equipment	107,784	67,353	40,431
Laboratory furniture and equipment	456,424	411,642	44,782
Laboratory computer equipment	351,860	246,238	105,622
Computer software	236,788	89,961	146,827
Manufacturing equipment	1,321,821	105,333	1,216,488
Manufacturing molds	167,200	166,050	1,150
Leasehold improvements	46,110	21,518	24,592
	<b>2,708,776</b>	<b>1,128,884</b>	<b>1,579,892</b>

As at September 30, 2007, \$1,467,571 in assets related primarily to the automation of the Company's manufacturing operations and some capital items related to next generation RAMP reader [December 31, 2006 - \$1,005,338] were not yet in service and hence not amortized. Amortization expense for the three and nine month periods ended September 30, 2007 amounted to \$81,579 and \$234,995 respectively [2006 - \$60,723 and \$159,605].

**Response Biomedical Corporation**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2007

(Unaudited - Expressed in Canadian dollars)

**7. DEFERRED COSTS**

	September 30, 2007 \$	December 31, 2006 \$
Beginning balance:		
Financing costs	—	89,525
Share issue costs	—	32,307
Other deferred costs	<b>20,376</b>	—
	<b>20,376</b>	121,832
Additions:		
Other deferred costs	—	30,576
Reductions:		
Amortization of financing costs	—	(37,926)
Amortization of other deferred costs	<b>(7,650)</b>	(10,200)
Financing costs recorded to share capital upon conversion of debentures into shares	—	(15,659)
Financing costs recorded to share capital upon termination of line of credit	—	(35,940)
Share issue costs recorded to share capital upon close of equity financing	—	(32,307)
Ending balance:		
Other deferred costs	<b>12,726</b>	20,376
<b>Total</b>	<b>12,726</b>	20,376

	September 30, 2007 \$	December 31, 2006 \$
Current portion deferred costs	<b>10,200</b>	10,200
Long - term deferred costs	<b>2,526</b>	10,176
<b>Total</b>	<b>12,726</b>	20,376

For the three and nine month periods ended September 30, 2007, the Company had amortization expense of other deferred costs in the amount of \$2,550 [2006 – \$2,550] and \$7,650 charged to cost of sales [2006 - \$61,235 (\$53,585 charged to other expenses and \$7,650 charged to cost of sales)] respectively [see notes 8 and 9].

## Response Biomedical Corporation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007

(Unaudited - Expressed in Canadian dollars)

#### 8. BANK INDEBTEDNESS

The Company's line of credit in the amount of US \$1,000,000 established with The Toronto Dominion Bank and originally set to expire June 30, 2006 was repaid following the closing of a \$12,000,000 private placement in March 2006. 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.

In 2005, the estimated fair value of the share purchase warrants, using the Black-Scholes pricing model, amounting to \$71,880 was credited to contributed surplus and recorded as deferred financing costs and was being amortized over the term of the credit facility until the termination and simultaneous exercise of warrants in 2006, after which the balance was transferred to share capital.

Interest expense related to the line of credit for the three and nine month periods ended September 30, 2007, amounted to \$Nil and \$Nil [2006 - \$Nil and \$12,419] respectively.

Other interest expense, not related to the line of credit and not related to debentures [see note 9], for the three and nine month periods ended September 30, 2007 amounted to \$Nil and \$851 [2006 - \$139 and \$4,385] respectively.

#### 9. 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 comprised 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 two years. The debenture conversion price was \$0.42 per common share for the first two years, and \$0.47 per common share in the third year.

The proceeds of the debentures were allocated to their debt and equity components. The liability component was 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 \$614,455 was recorded in contributed surplus. The liability component was accreted to fair value over the term of the debenture as a non-cash charge to interest expense. As at September 30, 2007, the accounting value of the debt amounted to \$Nil [December 31, 2006 - \$Nil].

In the year ended December 31, 2006, a total of 3,759,519 shares were issued to debenture holders upon conversion. All of the debentures have been converted. The non-accreted discount amounts related to the converted debentures were recorded to share capital in the amount of \$1,293,323.

## Response Biomedical Corporation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007

(Unaudited - Expressed in Canadian dollars)

#### 9. CONVERTIBLE DEBENTURES (cont'd.)

For the three and nine month periods ended September 30, 2007, interest expense, including accretion of debentures, amounted to \$Nil and \$Nil [2006 – \$Nil and \$46,979] respectively.

#### 10. LEASE INDUCEMENTS

During the nine months ended September 30, 2007 the Company entered into a 15 year lease agreement for a new premise with a rental commencement date of February 1, 2008. At the time of establishing this arrangement, a number of lease inducements were received by the Company from the landlord. The Canadian Institute of Chartered Accountants has issued a pronouncement (EIC 21) that recommends the benefits associated with these inducements be recognized over the term of the lease.

The deferred lease inducement credit reflected on the balance sheet as a result of these benefits is comprised of the following:

Rent-free inducement [a]	\$ 431,028
Lease inducement [b]	45,411
Lease inducement payable [c]	208,175
<b>Total</b>	<b>684,614</b>
Current Portion	
Rent-free inducement [a]	(19,157)
Lease inducement [b]	(2,018)
Lease inducement payable [c]	(9,271)
<b>Total current portion</b>	<b>(30,446)</b>
<b>Long-term portion</b>	<b>\$ 654,168</b>

[a] The Company negotiated a long-term lease agreement for a new premise which included an eight and one half month rent-free period from May 17, 2007 to February 1, 2008. The lease inducement benefit arising from the rent-free period will be amortized over the term of the lease as a reduction to rental expense.

[b] The Company negotiated a leasehold allowance for expenditures related to general upgrades to the building and site. As per the provisions of the lease, the maximum allowance under this arrangement is \$1.708 million and it is expected the entire amount will be required. The lease inducement benefit will be amortized on a straight-line basis over the term of the lease as a reduction to rental expense.

**Response Biomedical Corporation**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2007

(Unaudited - Expressed in Canadian dollars)

**10. LEASE INDUCEMENTS (cont'd.)**

[c] The Company negotiated a repayable leasehold improvement allowance for a maximum of \$8.0 million to be used for additional improvements to the building and site. It is expected the entire amount will be required. The amount will be repaid over the entire term of the lease commencing February 1, 2008.

**11. DEFERRED REVENUE**

	September 30, 2007 \$	December 31, 2006 \$
Beginning balance:		
Product sales	216,162	149,897
Contract service fees and revenues from collaborative development arrangements	—	99,178
	<b>216,162</b>	249,075
Additions:		
Product sales	103,653	151,864
Contract service fees and revenues from collaborative development arrangements	—	10,000
Recognition of revenue:		
Product sales	(95,028)	(85,599)
Contract service fees and revenues from collaborative development arrangements	—	(109,178)
Ending balance:		
Product sales	224,787	216,162
<b>Total</b>	<b>224,787</b>	216,162

	September 30, 2007 \$	December 31, 2006 \$
Current portion deferred revenue - Product sales	142,329	107,477
Long - term deferred revenue - Product sales	82,458	108,685
<b>Total</b>	<b>224,787</b>	216,162

## Response Biomedical Corporation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007

(Unaudited - Expressed in Canadian dollars)

#### 12. SHARE CAPITAL AND CONTRIBUTED SURPLUS

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

	Issued and Outstanding Number #	Amount \$	Contributed Surplus \$
<b>Balance, December 31, 2005</b>	67,700,472	35,743,700	5,341,423
Issued for cash:			
Exercise of warrants	464,720	196,420	—
Exercise of stock options	2,579,525	1,175,579	—
Exercise of agent options	29,875	22,406	—
Private placement and financing, net of issue costs and fair value of warrants	38,797,419	17,940,140	2,216,359
Issued for non-cash consideration:			
Conversion of debentures <i>[note 9]</i>	3,759,519	1,293,323	(274,409)
Directors' fees	133,332	80,000	—
Value of warrants exercised net of unamortized deferred cost <i>[note 7]</i>	—	35,940	(71,880)
Stock-based compensation related to stock options exercised	—	378,450	(378,450)
Value of agent's option exercised	—	2,175	(2,175)
Stock-based compensation <i>[note 12[c]]</i>	—	—	648,257
<b>Balance, December 31, 2006</b>	113,464,862	56,868,133	7,479,125
Issued for cash:			
Exercise of warrants	1,319,666	792,489	—
Exercise of stock options	787,963	420,712	—
Private placement, net of issue costs <i>[i]</i>	12,000,000	11,123,330	—
Issued for non-cash consideration:			
Value of warrants exercised	—	220,762	(220,762)
Stock-based compensation related to stock options exercised	—	244,431	(244,431)
Stock-based compensation <i>[note 12[c]]</i>	—	—	322,598
<b>Balance, September 30, 2007</b>	<b>127,572,491</b>	<b>69,669,857</b>	<b>7,336,530</b>

[i] On July 23, 2007 the Company closed a bought deal private placement for gross proceeds of \$12,000,000 before share issuance costs of \$876,669, and net proceeds of \$11,123,330 comprising 12,000,000 shares at a price of \$1.00 per share.

## Response Biomedical Corporation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007

(Unaudited - Expressed in Canadian dollars)

#### 12. SHARE CAPITAL AND CONTRIBUTED SURPLUS (cont'd.)

##### [b] Stock option plan

On June 21, 2005, the Company's 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 was originally set to terminate on May 3, 2007. At the Annual General Meeting held on June 14, 2007, the Company's shareholders approved an amendment to the 2005 Plan such that it no longer has a termination date. The exercise price of the options is determined by the Board of Directors, but generally will be equal to the closing trading price of the common shares on the day immediately preceding the grant date. The options vest in periods of 18 months to four years (in general) and the term may not exceed five years. At the Annual General Meeting held on June 14, 2007, the Company's shareholders approved an amendment to the 2005 Plan to increase the number of shares that may be issued under the plan from 13,500,000 to 17,000,000. Of the 17,000,000 [December 31, 2006 – 13,500,000] stock options authorized for grant under the 2005 Plan, 2,791,237 stock options are available for grant at September 30, 2007.

At September 30, 2007, the following stock options were outstanding:

		Options outstanding September 30, 2007		Options exercisable September 30, 2007	
Range of exercise prices \$	Number of shares under option #	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number of options currently exercisable #	Weighted average exercise price \$
0.33 – 0.39	83,000	3.03	0.36	83,000	0.36
0.40 – 0.49	91,087	2.56	0.46	56,752	0.44
0.50 – 0.59	4,352,000	2.96	0.56	1,367,505	0.54
0.60 – 0.69	1,729,275	4.23	0.66	57,395	0.64
0.70 – 0.79	644,950	1.80	0.73	560,570	0.72
0.80 – 0.89	1,431,650	2.86	0.83	851,400	0.80
0.90 – 0.99	75,000	3.62	0.91	7,500	0.91
1.00 – 1.10	2,353,313	4.91	1.05	55,850	1.09
<b>0.33 – 1.10</b>	<b>10,760,275</b>	<b>3.51</b>	<b>0.73</b>	<b>3,039,972</b>	<b>0.65</b>

The options expire at various dates from November 20, 2007 to September 26, 2012.

**Response Biomedical Corporation**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2007

(Unaudited - Expressed in Canadian dollars)

**12. SHARE CAPITAL AND CONTRIBUTED SURPLUS (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, 2005</b>	10,026,650	0.57
Options granted	4,224,050	0.59
Options forfeited	(454,876)	0.67
Options cancelled	(1,930,649)	0.55
Options expired	(1,692,300)	0.61
Options exercised	(2,579,525)	0.46
<b>Balance, December 31, 2006</b>	7,593,350	0.61
Options granted	4,417,913	0.89
Options forfeited	(96,750)	0.75
Options cancelled	(210,125)	0.60
Options expired	(156,150)	0.67
Options exercised	(787,963)	0.53
<b>Balance, September 30, 2007</b>	<b>10,760,275</b>	<b>0.73</b>

The exercise price equaled the closing trading price of the common shares on the date preceding the date of grant for all options issued during the years ended 2007 and 2006 except for 2,817,500 options where the exercise price was based on a price reservation approved by the TSX Venture Exchange in accordance with the Company's stock option plan.

## Response Biomedical Corporation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007

(Unaudited - Expressed in Canadian dollars)

#### 12. SHARE CAPITAL AND CONTRIBUTED SURPLUS (cont'd.)

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

For the three and nine month periods ended September 30, 2007, the Company recognized total stock-based compensation of \$110,915 and \$322,598 [2006 - \$65,152 and \$613,684] respectively. For the three and nine month periods ended September 30, 2007, the Company recognized compensation expense of \$105,804 and \$297,381 [2006 - \$59,107 and \$525,406], respectively as a result of stock options granted to officers, directors and employees and recognized compensation expense of \$5,111 and \$25,217 [2006 - \$6,045 and \$88,278], respectively 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 September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Dividend yield	0%	0%	0%	0%
Expected volatility	74%	78%	74%	78%
Risk-free interest rate	4.23%	4.23%	4.16%	4.15%
Expected life	3.74 years	2.80 years	3.94 years	2.48 years
Fair value per share	\$0.58	\$0.29	\$0.50	\$0.34

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	\$	\$	\$	\$
Cost of sales - products and services	6,402	12,189	20,042	42,030
Research and development	14,324	9,618	38,501	43,725
Marketing and business development	10,602	12,759	26,157	116,152
General and administrative	79,587	30,586	237,898	411,777
Total	110,915	65,152	322,598	613,684

## Response Biomedical Corporation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007

(Unaudited - Expressed in Canadian dollars)

#### 12. SHARE CAPITAL AND CONTRIBUTED SURPLUS (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 March 2005, common shares held in escrow may be released upon request, 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. As at September 30, 2007, 330,000 common shares have been released from escrow leaving a balance of escrow shares as at September 30, 2007 of 495,000.

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

At September 30, 2007, the following common share purchase warrants were outstanding:

<b>Number of common shares issuable</b>	<b>Exercise price \$</b>	<b>Expiry date</b>
<b>1,649,340</b>	0.50	October 21, 2007
<b>12,294,534</b>	0.62	March 30, 2008
<b>13,943,874</b>	<b>0.61</b>	

**Response Biomedical Corporation**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2007

(Unaudited - Expressed in Canadian dollars)

**12. SHARE CAPITAL AND CONTRIBUTED SURPLUS (cont'd.)**

[e] **Common share purchase warrants (cont'd.)**

Common share purchase warrant transactions are summarized as follows:

	Number of warrants #	Weighted average exercise price \$
<b>Balance, December 31, 2005</b>	6,209,092	1.01
Warrants issued	13,414,937	0.62
Warrants expired	(3,895,769)	1.32
Warrants exercised	(464,720)	0.42
<b>Balance, December 31, 2006</b>	15,263,540	0.61
Warrants exercised	(1,319,666)	0.62
<b>Balance, September 30, 2007</b>	<b>13,943,874</b>	<b>0.61</b>

[f] **Loss per common share**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
<b>Numerator</b>				
Loss for the period	(\$2,892,231)	(\$1,833,288)	(\$9,601,095)	(\$5,896,716)
<b>Denominator</b>				
Weighted average number of common shares outstanding	124,402,665	97,788,943	117,528,178	87,584,011
<b>Loss per common share - basic and diluted</b>	<b>(\$0.02)</b>	<b>(\$0.02)</b>	<b>(\$0.08)</b>	<b>(\$0.07)</b>

## Response Biomedical Corporation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007

(Unaudited - Expressed in Canadian dollars)

#### 13. RELATED PARTY TRANSACTIONS

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>General and administrative</b>				
Legal fees	45,583	—	62,325	—
Strategic consulting services	—	—	—	66,500
Directors' fees [note12[a]]	—	—	—	80,000

In 2006, the Company entered into an agreement with a development partner, whereby the development partner became a shareholder of the Company. During the three and nine month periods ended September 30, 2007, the Company earned revenues totaling \$152,105 and \$464,899 (product revenue \$Nil and \$1,247 and contract service fees and revenues from collaborative research arrangements \$152,105 and \$463,652) [2006 – \$Nil and \$Nil] respectively, subsequent to the development partner becoming a related party. As at September 30, 2007 \$150,803 of the accounts receivable related to this revenue remained outstanding and was included in the balance of trade receivables.

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

#### 14. 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 is required to 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.

## **Response Biomedical Corporation**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2007

(Unaudited - Expressed in Canadian dollars)

#### **14. COMMITMENTS AND CONTINGENCIES (cont'd.)**

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. Effective January 1, 2006 the annual license fee increased to \$1,000. These payments are accrued and expensed in the year incurred. The agreement terminates on the expiration date in 2016, or invalidity, of the patents or upon bankruptcy or insolvency of the Company. Pursuant to the agreement, the Company paid \$2,500 and \$13,500 in the three and nine month periods ended September 30, 2007 [2006 - \$5,500 and \$11,000].

##### **[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.

##### **[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 unaudited interim consolidated financial statements with respect to these indemnification obligations.

## Response Biomedical Corporation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007

(Unaudited - Expressed in Canadian dollars)

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

##### [d] Supply agreement

The Company entered into a supply agreement with a supplier, effective September 2003 for certain reagents for the Company's RAMP West Nile Virus Test. In addition to paying for the reagent purchased, the Company is required to pay the supplier semi-annual royalties equal to 10% of net revenue generated from the sale of the Company's RAMP West Nile Virus Test. The initial term of the agreement was three years from the effective date and is automatically renewed for successive periods of one year until either party terminates the Agreement. For the three and nine month periods ended September 30, 2007, the Company incurred an expense of \$18,002 and \$38,631 [2006 - \$17,668 and \$52,416] respectively for royalties to the supplier.

##### [e] Lease agreements

- [i] 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 \$62,000 including maintenance and utilities. Rent expense for the three and nine month periods ended September 30, 2007 was \$186,801 and \$560,426 [2006 - \$186,801 and \$534,646] respectively.
- [ii] The Company entered into a long-term agreement to lease a single tenant 46,000 square foot facility to house all of the Company's operations beginning in early 2008. Rent is payable from February 1, 2008 to January 31, 2023. For the first year of this period, the Company is required to pay the landlord a total gross monthly rent of approximately \$173,830 including operating costs with yearly increases of 3% of base rent. A deposit of \$145,100 for the first month's rent is included in the balance of prepaid expenses as at September 30, 2007. To secure the lease, the Company is maintaining a security deposit with the landlord in the form of an irrevocable letter of credit in the amount of \$870,610 disclosed as restricted investment in the long term section on the Consolidated Balance Sheets.

## Response Biomedical Corporation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007

(Unaudited - Expressed in Canadian dollars)

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

##### [e] [ii] Lease agreements (cont'd.)

The minimum annual cost of lease commitments, including an estimate of additional costs under the new lease agreement for the premise, is as follows:

<u>Years ending September 30,</u>	<u>\$</u>
2008	1,557,541
2009	2,103,561
2010	2,130,440
2011	2,158,056
2012 to 2023	26,636,959

##### [f] Commitments to purchase equipment and engineering services

At September 30, 2007, the Company has outstanding purchase and work order commitments totaling \$139,112 related to the purchase of manufacturing equipment and the development of a next generation RAMP Reader.

#### 15. SEGMENTED INFORMATION

The Company operates primarily in one business segment, the research, development, commercialization and distribution 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 the United States, Asia, Europe and Canada. Expenses are primarily incurred from purchases made from suppliers in Canada and the United States.

For the three and nine month periods ended September 30, 2007, \$152,105 and \$463,652 of the Company's contract service fees and revenues from collaborative research arrangements were generated from one customer respectively [2006 - two customers for a total of \$79,309 and three customers for a total of \$455,193].

## Response Biomedical Corporation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007

(Unaudited - Expressed in Canadian dollars)

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

Contract service fees and revenues from collaborative research arrangements by geographic location for the three and nine month periods ended September 30, 2007 were as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
	\$	\$	\$	\$
United States	152,105	63,839	463,652	301,428
Canada	—	—	—	80,000
Asia	—	15,470	—	73,765
<b>Total</b>	<b>152,105</b>	<b>79,309</b>	<b>463,652</b>	<b>455,193</b>

For the three and nine month periods ended September 30, 2007, \$511,143 and \$1,179,802 of the Company's product sales were generated from three customers [2006 – three customers for a total of \$1,356,506 and two customers for a total of \$2,841,172]. Each of these customers contributed to 10% or more of the Company's product sales for those periods.

Product sales by customer location for the three and nine month periods ended September 30, 2007 were as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
	\$	\$	\$	\$
United States	322,081	450,989	921,414	1,246,743
Asia	322,969	770,354	825,669	1,097,692
Europe	94,077	45,506	403,794	180,432
Canada	88,236	89,657	296,050	307,719
Other	42,375	—	191,264	8,586
<b>Total</b>	<b>869,738</b>	<b>1,356,506</b>	<b>2,638,191</b>	<b>2,841,172</b>

Product sales by type of product for the three and nine month periods ended September 30, 2007 were as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
	\$	\$	\$	\$
Clinical products	486,194	902,246	1,544,087	1,690,137
Vector products (West Nile Virus)	210,152	184,134	440,821	548,212
Bio-defense products	173,392	270,126	653,283	602,823
<b>Total</b>	<b>869,738</b>	<b>1,356,506</b>	<b>2,638,191</b>	<b>2,841,172</b>

**Response Biomedical Corporation**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2007

(Unaudited - Expressed in Canadian dollars)

**16. COMPARATIVE FIGURES**

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

**17. SUBSEQUENT EVENTS**

- [a] Subsequent to September 30, 2007, the Company received conditional approval by the Toronto Stock Exchange (“TSX”) to list its common shares on the TSX.
- [b] Subsequent to September 30, 2007, the Company issued 555,800 common shares pursuant to the exercise of stock options for gross proceeds of \$268,700 and 1,774,340 common shares pursuant to the exercise of warrants for gross proceeds of \$902,170.



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