



 **Response**
Biomedical Corporation

2008 2nd 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 unaudited interim consolidated financial statements of Response Biomedical Corporation ("Response Biomedical" or the "Company") as at and for the three and six month periods ended June 30, 2008, including the related notes therein, prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Additional information relating to the Company, including the Annual Report and audited consolidated financial statements as at and for the years ended December 31, 2007 and 2006, is available by accessing the SEDAR website at www.sedar.com. All amounts are expressed in Canadian dollars unless otherwise indicated.

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.

This management discussion and analysis of financial condition and results of operations has been prepared as at August 14, 2008.

OVERVIEW

Response Biomedical develops, manufactures and sells diagnostic tests for use with its proprietary RAMP[®] 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 twelve tests available for clinical and environmental testing applications and the Company has plans to commercialize additional tests.

The Company has invested significantly to increase its automated manufacturing capacity in advance of expected growth in demand for its products. In April 2008, the Company received US Food and Drug Administration (FDA) clearance to market its new high throughput instrument and rapid Influenza A+B test. In July 2008, the Company received FDA clearance to market its rapid NT-proBNP test for the detection and diagnosis of congestive heart failure.

The Company currently has sales and marketing partnerships with Shionogi & Co. Ltd. of Japan for its BNP test and 3M Company for its infectious disease products. In addition, on June 26, 2008, the Company announced a partnership with Roche Diagnostics to exclusively market its line of cardiovascular tests worldwide outside of Japan. While the agreement with Roche was pending, existing distributors limited their investment in selling the Company's products in this market. As a result, sales in 2007 and the first half of 2008 remained relatively flat with declining gross margins, which are expected to increase again as sales volumes rise.

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

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

Clinical products revenue for the three month period ended June 30, 2008 decreased 15% to \$380,931 compared to \$449,804 for the same period in 2007. Clinical products revenue for the six month period ended June 30, 2008 increased 9% to \$1,150,076 compared to \$1,057,380 for the same period in 2007.

Vector products (West Nile Virus) revenue for the three and six month periods ended June 30, 2008 increased 186% and 118% to \$371,977 and \$503,642, respectively compared to \$130,265 and \$230,670 for the same periods in 2007.

Biodefense products revenue for the three and six month periods ended June 30, 2008 decreased 14% and 40% to \$93,015 and \$289,690, respectively compared to \$107,920 and \$480,403 for the same periods in 2007.

Contract service fees and revenue from collaborative research agreements for the three and six month periods ended June 30, 2008 decreased 51% and 27% to \$151,592 and \$227,228, respectively compared to \$311,547 and \$311,547 for the same periods in 2007.

As at June 30, 2008, the Company had \$3,515,140 in cash, cash equivalents and short-term investments, a decrease of \$4,689,507 compared to \$8,204,647 as at December 31, 2007. As at June 30, 2008, the Company had a working capital balance of \$4,315,299, a decrease of \$3,855,998 compared to \$8,171,297 as at December 31, 2007.

During the three and six month periods ending June 30, 2008, the Company received cash from the exercise of outstanding stock options in the amount of \$31,530 and \$37,321, respectively and received cash from the exercise of outstanding share purchase warrants in the amount of \$3,676,748 and \$3,896,848, respectively.

Key operational milestones during the six month period ended June 30, 2008 included:

- ❑ On June 26, 2008, the Company entered into an agreement granting exclusive rights to Roche Diagnostics to market the Company's line of cardiovascular point-of-care tests worldwide outside of Japan.
- ❑ On April 17, 2008, the Company announced receipt of US FDA 510(k) clearance to market a rapid Influenza A+B test (Flu A+B test) and a new version of the RAMP® Reader, the RAMP® 200. The test manufactured by Response Biomedical runs on the new RAMP® 200 Reader and will be marketed and sold worldwide exclusively by 3M Health Care as the 3M™ Rapid Detection Flu A+B Test.
- ❑ The Company moved to its new state-of-the-art global headquarters in Vancouver, British Columbia on March 31, 2008. The 46,000 square foot single-occupant specialized use facility was specifically designed and constructed for development and GMP manufacturing and distribution of point-of-care medical diagnostic test kits.

Subsequent to the end of the quarter, on July 22, 2008, the Company announced receipt of US FDA 510(k) clearance to market a rapid NT-proBNP test as an aid to the rapid diagnosis of heart failure. The test, manufactured by Response Biomedical, will be marketed and sold worldwide outside of Japan by Roche Diagnostics.

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

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, lease inducements, provisions for inventory obsolescence, accrual for warranty, provisions for sales returns and allowances, stock-based compensation expense 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 and for the year ended December 31, 2007 except for changes in accounting policies as noted below. 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 2007 audited consolidated financial statements, is available by accessing the SEDAR website at 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.

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.

Deferred Lease Inducement

Lease inducements arising from non-repayable leasehold improvement allowances and rent-free inducements received from the landlord are being amortized to reduce rent expense over the term of the operating lease on a straight-line basis.

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

Stock-Based Compensation

The Company grants stock options to executive officers, directors, employees and consultants pursuant to a stock option plan described in Note 11(c) to the unaudited interim consolidated financial statements as at June 30, 2008. 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.

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.

CHANGES IN ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS

CHANGES IN ACCOUNTING POLICIES

Capital Disclosures

Effective January 1, 2008, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) under CICA Handbook Section 1535 – "Capital Disclosures" ("Section 1535"). Section 1535 requires a company to disclose information that enables users of its financial statements to evaluate the Company's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. This accounting policy change was adopted on a prospective basis with no restatement of prior period unaudited interim consolidated financial statements.

Inventory

Effective January 1, 2008, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) under CICA Handbook Section 3031 "Inventories", which replaces Section 3030, of the same name. The new section provides guidance on the basis and method of measurement of inventories and allows for reversal of previous write-downs. The section also establishes new standards on disclosure of accounting policies used, carrying amounts, amounts recognized as an expense, write-downs and the amount of any reversal of any write-downs. This accounting policy change was adopted on a prospective basis with no restatement of prior period unaudited interim consolidated financial statements.

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

Financial Instruments

Effective January 1, 2008, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) under CICA Handbook Sections 3862 and 3863 - "Financial Instruments - Presentation" ("Sections 3862 and 3863"). Sections 3862 and 3863 require an increased emphasis on disclosures about the nature and extent of risk arising from financial instruments and how a company manages these risks.

On January 8, 2008 the Accounting Standards Board issued EIC-169 which provides guidance on how Section 3855 of the CICA Handbook defines or applies the term "routinely denominated in commercial transactions around the world". The Company has contracts with key customers denominated in foreign currencies which are embedded derivatives as defined by Section 3855, however these contracts do not currently have a material affect on the Company's unaudited interim consolidated financial statements. Management is aware of the possible impacts of EIC-169 and monitors and analyses existing and future contracts to ascertain the extent of the impact on the Company's unaudited interim consolidated financial statements.

RECENT ACCOUNTING PRONOUNCEMENTS

The Accounting Standards Board of the CICA announced that Canadian GAAP for publicly accountable enterprises will be replaced with International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011.

Implementing IFRS will have an impact on accounting, financial reporting and supporting IT systems and processes. It may also have an impact on taxes, contractual commitments involving GAAP based clauses, long-term employee compensation plans and performance metrics. Accordingly, when the Company develops its IFRS implementation plan, it will have to include measures to provide extensive training to key finance personnel, to review contracts and agreements and to increase the level of awareness and knowledge amongst management, the Board of Directors and Audit Committee. Additional resources may be engaged to ensure the timely conversion to IFRS.

RESULTS OF OPERATIONS

For the three and six month periods ended June 30, 2008 and 2007:

Revenue and Cost of Sales

Revenues from product sales for the three and six month periods ended June 30, 2008 increased 23% and 10% to \$845,923 and \$1,943,408, respectively compared to \$687,989 and \$1,768,453 for the same periods in 2007.

Clinical products revenue for the three month period ended June 30, 2008 decreased 15% to \$380,931 compared to \$449,804 for the same period in 2007. The decrease in the second quarter, relative to the same period in 2007, is mainly as a result of the timing of cardiac product and infectious disease orders from its distributors and marketing partners. Clinical products revenue for the six month period ended June 30, 2008 increased 9% to \$1,150,076 compared to \$1,057,380 for the same period in 2007. This increase is mainly due to increased test sales offset partially by decreased reader sales. Test sales have increased mainly as a result of servicing a larger customer base and due to the launch of new product. 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 and infectious disease orders from its distributors.

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

Vector products (West Nile Virus) revenue for the three and six month periods ended June 30, 2008 increased 186% and 118% to \$371,977 and \$503,642, respectively compared to \$130,265 and \$230,670 for the same periods in 2007. This increase is primarily due to expanded usage by US municipal health authorities and the timing of shipments. In the future, the Company expects the sales of West Nile Virus products to continue to be variable and fluctuate seasonally.

Biodefense products revenue for the three and six month periods ended June 30, 2008 decreased 14% and 40% to \$93,015 and \$289,690, respectively compared to \$107,920 and \$480,403 for the same periods in 2007. 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 six month periods ended June 30, 2008 decreased 51% and 27% to \$151,592 and \$227,228, respectively compared to \$311,547 and \$311,547 for the same periods in 2007. 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 \$997,515 and \$2,170,636 for the three and six month periods ended June 30, 2008 [2007 - \$999,536 and \$2,080,000] was \$80,440 and \$128,023 [2007 - \$32,911 and \$50,864], respectively of revenue recognized that was deferred from prior periods and did not result in cash in the current period.

Cost of sales for the three and six month periods ended June 30, 2008 increased 14% and 30% to \$832,453 and \$1,833,782, respectively compared to \$731,981 and \$1,411,893 for the same periods in 2007. 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 from product sales for the three and six month periods ended June 30, 2008 was 2% and 6%, respectively compared to negative 6% and positive 20% for the same periods in 2007. The decrease in gross margin for the six month period ended June 30, 2008 as compared to the same period in 2007 is primarily due to a decrease in higher margin first generation clinical and biodefence 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, amortization and other expenses incurred to support the scale up of manufacturing operations. The Company expects variation in gross margin based on product mix and, in the short term, lower gross margins due to 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 six month periods ended June 30, 2008 decreased 16% and 9% to \$1,799,736 and \$3,594,657, respectively from \$2,143,142 and \$3,936,834 for the same periods in 2007. The decrease in the second quarter as compared to the same period in 2007 is primarily related to license fees to commercialize a RAMP test using a proprietary marker, incurred in 2007 but not in 2008, in the amount of \$532,000, decreased costs incurred for product development activities totaling \$84,000, lower legal costs related to submitting and maintaining patent filings in the amount of \$31,000 offset by additional payroll costs in the amount of \$179,000, increased amortization charges mainly related to the new facility totaling \$34,000, increased professional development and training costs in the amount of \$30,000, higher

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

allocations for overhead charges totaling \$24,000, increased stock based compensation expense in the amount of \$13,000 and higher travel and conference expenses totaling \$9,000.

General and administrative expenditures for the three and six month periods ended June 30, 2008 increased 8% and 31% to \$1,240,597 and \$2,487,748, respectively from \$1,153,661 and \$1,899,586 for the same periods in 2007. The increase in the second quarter of 2008 as compared to the same period in 2007 is primarily due to strategic consulting services fees in the amount of \$250,000, increased stock-based compensation expense as a result of new grants in the amount of \$47,000, directors' fees totaling \$36,000, additional amortization charges mainly related to the new facility totaling \$34,000, increased overhead expenses in the amount of \$24,000, additional travel costs totaling \$19,000 offset by reduced allocations for rent expense in the amount of \$243,000 which in 2007 included charges related to the rent free period of the new facility lease agreement that prior to occupancy were fully charged to general and administrative expenses, a reduction in professional fees for compliance with US Sarbanes-Oxley Axt of 2002 totaling \$36,000, reduced corporation communications costs totaling \$21,000 and reduced allocations for charges related to information technology in the amount of \$18,000.

Marketing and business development expenditures for the three and six month periods ended June 30, 2008 decreased 9% and 5% to \$645,691 and \$1,259,733, respectively from \$710,802 and \$1,328,141 for the same periods in 2007. The decrease in the second quarter as compared to the same period in 2007 is primarily due to reduced selling expenses totaling \$38,000, lower legal fees in the amount of \$26,000, decreased payroll and salaries expenses totaling \$21,000 and reduced travel and conference expenditures totaling \$18,000 offset by higher charges allocated for amortization totaling \$13,000, increased overhead expenses in the amount of \$12,000 and higher administrative charges totalling \$9,000.

Other Income/Expenses

For the three and six month periods ended June 30, 2008, interest expense amounted to \$220,134 and \$366,640, respectively compared to \$Nil and \$851 for the same periods in 2007. The increase in expense is due to the repayment of the repayable leasehold improvement allowance related to the new facility operating lease agreement.

During the three and six month periods ended June 30, 2008, the Company earned interest income of \$28,403 and \$68,562 [2007 - \$47,111 and \$137,411], respectively. The decrease is as a result of lower average funds on deposit.

During the three and six month periods ended June 30, 2008, the Company had a foreign exchange loss of \$27,801 and gain of \$18,757 [2007 - loss of \$294,827 and \$348,971], respectively. The losses are largely due to balances of cash and cash equivalents and short-term investments held in US dollars affected by a decrease 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) for the last business day of the period. The exchange rate as at June 30, 2008 was \$0.9818 US per CDN dollar [December 31, 2007 - \$1.0120 US per CDN dollar].

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

Loss

For the three and six month periods ended June 30, 2008 the Company reported a loss of \$3,740,494 or \$0.03 per share and \$7,284,605 or \$0.05 per share, respectively compared to a loss of \$3,987,766 or \$0.03 per share and \$6,708,865 or \$0.06 per share for the same periods in 2007. The increase in loss is primarily due to decreased margins on product sales, higher compensation expenses, additional rent expense related to the new facility lease agreement, interest expense related to the repayable leasehold improvement allowance related to the new facility lease agreement and decreased interest income.

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 quarters ended June 30, 2008.

	2008	2008	2007	2007	2007	2007	2006	2006
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	\$	\$	\$	\$	\$	\$	\$	\$
Product Revenue	845,923	1,097,485	919,053	869,738	687,989	1,080,464	945,165	1,356,506
Cost of Sales	832,453	1,001,329	986,724	803,009	731,981	679,912	594,970	788,367
Gross Profit	13,470	96,156	-67,671	66,729	-43,992	400,552	350,195	568,139
Gross Margin on								
Product Sales	2%	9%	-7%	8%	-6%	37%	37%	42%
Services Revenue	151,592	75,636	63,220	152,105	311,547	0	178,528	79,309
Total Revenue	997,515	1,173,121	982,273	1,021,843	999,536	1,080,464	1,123,693	1,435,815
Expenses	3,686,024	3,656,114	4,379,794	3,110,219	4,007,605	3,156,956	4,032,526	2,507,170
Loss for the Period	3,740,494	3,544,111	4,299,946	2,892,230	3,987,766	2,721,099	3,431,451	1,833,288
Loss per Share –								
Basic and Diluted	0.03	0.03	0.07	0.02	0.03	0.02	0.03	0.02
Total Assets	21,553,341	25,187,741	17,938,351	16,473,216	7,593,556	10,431,436	12,966,931	5,936,076

Quarter-to-quarter variability in product 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 significant bio-defense system orders;
- Seasonality related to the demand for RAMP West Nile Virus products as well as significant penetration of this market; and
- Beginning the first quarter of 2008, additional revenues from the introduction of new products, such as the RAMP 200 Reader and the 3M Rapid Detection Flu A+B Test.

Quarter to quarter variability in contract service fees and revenue from collaborative research agreements is primarily due to the timing of the performance of services required to recognize service revenue from the Company's collaborations.

The losses reported are primarily the result of decreased margins on product sales due to the scale up and automation of the Company's manufacturing operations in anticipation of growth in its clinical products business and a general increase in infrastructure across all functions to support anticipated sales and partnering requirements.

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

LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its operations primarily through equity and debt financings. As of June 30, 2008, the Company has raised approximately \$75 million from the sale and issuance of equity securities and convertible debt, net of issue costs.

As at June 30, 2008, the Company had a working capital balance of \$4,315,299 a decrease of \$3,855,998 compared to \$8,171,297 as at December 31, 2007. With the growth of its operations, the Company's requirements for working capital are increasing. For the three and six month periods ended June 30, 2008, the Company relied primarily on cash on hand and proceeds from the exercise of share purchase warrants and stock options to fund its expenditures. The Company also relied on a repayable leasehold improvement allowance from its landlord to fund capital expenditures related to the new facility.

For the three and six month periods ended June 30, 2008, the Company incurred losses of \$3,740,494 and \$7,284,605, respectively compared to losses of \$3,987,766 and \$6,708,865 for the same periods in 2007. Until the Company receives greater revenue from product sales, it expects that it will continue to fund its operations from a combination of the funds on hand, issuance of equity securities and warrants, contract service fees, revenues from collaborative research arrangements, exercise of options, funding from partners and debt financing, as appropriate and where available.

As at June 30, 2008 the Company had 9,895,475 stock options outstanding of which 2,457,856 were exercisable at prices between \$0.33 and \$1.10 per share and which, if fully exercised, would result in the receipt of approximately \$1.6 million. Of the 2,457,856 stock options that were exercisable as at June 30, 2008, 796,087 had an exercise price less than the market price of \$0.52 as at June 30, 2008 and which, if fully exercised would result in the receipt of approximately \$406,000.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

As at June 30, 2008, the Company had the following commitments and contractual obligations.

Commitments and Obligations	Total	1 Year	2 – 3 Years	4 – 5 Years	> 5 Years
	\$	\$	\$	\$	\$
Equipment Operating Leases	113,400	30,240	60,480	22,680	-
License Fees	94,000	11,000	22,000	22,000	39,000
Equipment	100,760	100,760	-	-	-
Repayable Leasehold Allowance	15,821,429	1,091,133	2,182,266	2,182,266	10,365,764
Facility Sublease	14,842,474	847,627	1,765,203	1,863,004	10,366,640
Total	30,972,063	2,080,760	4,029,949	4,089,950	20,771,404

OFF BALANCE SHEET ARRANGEMENTS

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

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

OUTSTANDING SHARE CAPITAL

As at June 30, 2008 there were 136,335,340 common shares issued and outstanding for a total of \$76,390,960 in share capital, 9,895,475 (of which 2,457,856 are exercisable at a weighted-average exercise price of \$0.68 per share) common shares issuable upon the exercise of outstanding stock options at a weighted-average exercise price of \$0.76 per share and 3,027,767 common shares reserved for future grant or issuance under the Company's stock option plan.

As at August 14, 2008 there were 136,335,340 common shares issued and outstanding for a total of \$76,390,960 in share capital, 9,620,475 (of which 2,468,820 are exercisable at a weighted-average exercise price of \$0.68 per share) common shares issuable upon the exercise of outstanding stock options at a weighted-average exercise price of \$0.76 per share, with 3,302,767 common shares reserved for future grant or issuance under the Company's stock option plan.

TRANSACTIONS WITH RELATED PARTIES

- [a] The following expenses were incurred by the Company for services provided by directors or companies related to or under their control:

	Three Months Ended		Six Months Ended	
	2008	June 30, 2007	2008	June 30, 2007
	\$	\$	\$	\$
General and administrative				
Strategic consulting services	250,000	-	250,000	-
Directors' fees	36,000	-	60,000	-
Legal fees	29,119	14,364	30,977	16,872
	315,119	14,364	340,977	16,872

Strategic consulting services fees in the amount of \$250,000 were incurred by the Company for extraordinary services provided by a non-management member of the Board of Directors in the three month period ended June 30, 2008. This amount remains outstanding and is included in the balance of accrued and other liabilities as at June 30, 2008. In the first quarter of 2008, \$250,000 was paid by the Company for extraordinary services provided in a prior period by a non-management member of the Board of Directors. No such expenses were incurred or paid in the three and six month periods ended June 30, 2007.

For the three and six month periods ended June 30, 2008, directors' fees totaling \$36,000 and \$60,000, respectively were incurred by the Company for routine services provided by non-management members of the Board of Directors. As at June 30, 2008, \$60,000 remained outstanding and was included in the balance of accrued and other liabilities. No payments have been made in the six month period ended June 30, 2008. No such expenses were incurred or paid in the three and six month periods ended June 30, 2007.

The Company retains a law firm where a corporate partner is a non-management member of the Board of Directors. For the three and six month periods ended June 30, 2008, the Company incurred legal fees from this law firm totaling \$29,119 and \$30,977 [2007 - \$14,364 and \$16,872], respectively. As at June 30, 2008, \$14,996 remained outstanding and was included in the balance of accounts payable.

For the three and six month periods ended June 30, 2008, the Company paid legal fees to this law firm totaling \$15,780 and \$31,635 [2007 - \$2,650 and \$13,317], respectively.

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

[b] In 2006, the Company entered into an agreement with a development partner, whereby the development partner became a shareholder of the Company.

The Company earned revenues from this development partner as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
Product revenues	2,957	-	181,976	1,247
Contract service fees and revenues from collaborative research arrangements	150,908	311,547	226,544	311,547
	153,865	311,547	408,520	312,794

As at June 30, 2008, \$59,412 of this revenue is included in the balance of trade receivables. As a term of a collaborative research arrangement with the development partner a balance of \$94,453 is included in other receivables and is expected to be received in the last quarter of 2008 upon the successful completion of certain provisions of the agreement.

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

FINANCIAL INSTRUMENTS

For certain of the Company's financial instruments, including cash and cash equivalents, restricted cash, short-term investments, trade receivables, other receivables and accounts payable the carrying amounts approximate fair values due to their short-term nature. The carrying value of the repayable leasehold improvement allowance approximates the 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 June 30, 2008, four customers represent 77% [December 31, 2007 – four customers represent 78%] of the trade receivables balance. For the three and six month periods ended June 30, 2008, four and four customers represent 67% and 52% [three and six month periods ended June 30, 2007 – two and two customers represent 36% and 28%, respectively] of total product sales, respectively. For both the three and six month periods ended June 30, 2008, one customer represents 100% [three and six month periods ended June 30, 2007 – one customer represents 100%] of total service revenues. The Company has good credit history with these customers and the amounts due from them are 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 significant portion 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.

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

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

No change in the Company's internal control over financial reporting occurred during the three and six month periods ended June 30, 2008 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over 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 unaudited interim 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 June 30, 2008 had an accumulated deficit of \$74,777,728 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 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; 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, 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;

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

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:** In April 2008, the Company received FDA 510(K) clearance to market a new instrument to be commercially available in the US. 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 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 re-imbusement:** 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, including information about risks, uncertainties and other factors which may cause 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)

Second Quarter Report

June 30, 2008

Response Biomedical Corporation
Incorporated under the laws of British Columbia

CONSOLIDATED BALANCE SHEETS

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

Unaudited - Expressed in Canadian dollars

	June 30, 2008	December 31, 2007
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	3,484,969	8,173,961
Restricted cash [note 4]	836,364	106,527
Short-term investments	30,171	30,686
Trade receivables, net [note 6]	624,140	742,624
Other receivables	662,836	1,318,107
Inventories [note 7]	2,388,100	1,153,506
Prepaid expenses and other	425,279	479,398
Deferred costs	5,076	10,176
Total current assets	8,456,935	12,014,985
Restricted investment [notes 9[c] and 13[e][ii]]	873,562	875,375
Property, plant and equipment [note 8]	12,222,844	5,047,991
	21,553,341	17,938,351
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable [note 6]	1,358,739	2,104,204
Accrued and other liabilities	1,457,560	1,315,179
Holdback payable [note 4]	830,391	106,527
Lease inducements - current portion [note 9]	400,623	191,445
Deferred revenue - current portion [note 10]	94,323	126,333
Total current liabilities	4,141,636	3,843,688
Lease inducements [note 9]	9,254,029	2,941,295
Deferred revenue [note 10]	72,519	80,147
	13,468,184	6,865,130
Commitments and contingencies [note 13]		
Shareholders' equity		
Share capital [note 11[b]]	76,390,960	71,393,556
Contributed surplus [note 11[b]]	6,471,925	7,172,788
Deficit	(74,777,728)	(67,493,123)
Total shareholders' equity	8,085,157	11,073,221
	21,553,341	17,938,351

See accompanying notes

On behalf of the Board:



S. Wayne Kay
Director



Richard K. Bear
Director

Response Biomedical Corporation

CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT

Unaudited - Expressed in Canadian dollars

	Three Months Ended		Six Months Ended	
	2008	June 30, 2007	2008	June 30, 2007
	\$	\$	\$	\$
REVENUE				
Product sales <i>[notes 12 and 14]</i>	845,923	687,989	1,943,408	1,768,453
Cost of sales <i>[note 11[d]]</i>	832,453	731,981	1,833,782	1,411,893
Gross profit on product sales	13,470	(43,992)	109,626	356,560
Contract service fees and revenues from collaborative research arrangements <i>[notes 12 and 14]</i>	151,592	311,547	227,228	311,547
	165,062	267,555	336,854	668,107
EXPENSES				
Research and development <i>[note 11[d]]</i>	1,799,736	2,143,142	3,594,657	3,936,834
General and administrative <i>[notes 11[d] and 12]]</i>	1,240,597	1,153,661	2,487,748	1,899,586
Marketing and business development <i>[note 11[d]]</i>	645,691	710,802	1,259,733	1,328,141
Total expenses	3,686,024	4,007,605	7,342,138	7,164,561
OTHER EXPENSES (INCOME)				
Interest expense <i>[note 9[c]]</i>	220,134	-	366,640	851
Interest income	(28,403)	(47,111)	(68,562)	(137,411)
Foreign exchange loss (gain)	27,801	294,827	(18,757)	348,971
Total other expenses (income)	219,532	247,716	279,321	212,411
Loss and comprehensive loss for the period	(3,740,494)	(3,987,766)	(7,284,605)	(6,708,865)
Deficit, beginning of period	(71,037,234)	(56,313,181)	(67,493,123)	(53,592,082)
Deficit, end of period	(74,777,728)	(60,300,947)	(74,777,728)	(60,300,947)
Loss per common share - basic and diluted				
<i>[note 11[g]]</i>	(0.03)	(0.03)	(0.05)	(0.06)
Weighted average number of common shares outstanding <i>[note 11[g]]</i>	136,319,149	114,373,248	133,172,754	114,033,963

Response Biomedical Corporation

CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited - Expressed in Canadian dollars

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Loss for the period	(3,740,494)	(3,987,766)	(7,284,605)	(6,708,865)
Add (deduct) items not involving cash:				
Amortization of property, plant and equipment <i>[note 8]</i>	296,096	75,383	445,215	153,416
Amortization of deferred lease inducement	(42,036)	-	(51,082)	-
Stock-based compensation	183,712	110,062	362,372	211,682
Amortization of deferred costs	2,550	2,550	5,100	5,100
Deferred lease inducements	-	-	95,784	-
Changes in non-cash working capital	(74,385)	536,232	(1,151,651)	(167,321)
Cash used in operating activities	(3,374,557)	(3,263,539)	(7,578,867)	(6,505,988)
INVESTING ACTIVITIES				
Short term investments	683	3,376,439	515	3,366,295
Restricted investment	889	(870,610)	1,813	(870,610)
Purchase of property, plant and equipment	(986,333)	(115,921)	(6,197,734)	(551,370)
Cash used in investing activities	(984,761)	2,389,908	(6,195,406)	1,944,315
FINANCING ACTIVITIES				
Repayable lease inducement received	756,474	-	5,208,019	-
Repayment of lease inducement	(54,249)	-	(89,600)	-
Proceeds from issuance of common shares, and warrants, net of share issue costs	3,708,278	533,720	3,934,169	809,960
Cash provided by financing activities	4,410,503	533,720	9,052,588	809,960
Effect of changes in foreign currency rates on cash and cash equivalents	(16,798)	(190,020)	32,693	(193,717)
Decrease in cash during the period	51,185	(529,931)	(4,721,685)	(3,945,430)
Cash and cash equivalents, beginning of period	3,450,582	2,291,577	8,173,961	5,707,076
Cash and cash equivalents, end of period	3,484,969	1,761,646	3,484,969	1,761,646
Components of Cash, Cash Equivalents and Short-Term Investments				
Cash	3,484,969	1,653,369	3,484,969	1,653,369
Cash equivalents	-	108,277	-	108,277
Short-term investments	30,171	93,485	30,171	93,485
Cash, cash equivalents, and short-term investments, end of period	3,515,140	1,855,131	3,515,140	1,855,131
Supplemental Disclosure				
Interest paid in cash <i>[note 9[c]]</i>	220,134	-	366,640	851
Non-cash activity:				
Non-repayable leasehold improvement allowance <i>[note 9[b]]</i>	170,799	-	1,269,781	-

See accompanying notes

Response Biomedical Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(Unaudited - Expressed in Canadian dollars)

1. BASIS OF PRESENTATION AND GOING CONCERN UNCERTAINTY

Response Biomedical Corporation (the "Company") was incorporated on August 20, 1980 under the predecessor to the Business Corporations Act (British Columbia). The Company is engaged in the research, development, commercialization and distribution of diagnostic technologies for the medical point of care ("POC") and on-site environmental testing markets. POC and on-site diagnostic tests (or assays) are simple, non-laboratory based tests performed using portable hand-held devices, compact desktop analyzers, single-use test cartridges and/or dipsticks. Since 1996, the Company has developed and commercialized a proprietary diagnostic system called RAMP®.

The RAMP System is a portable fluorescence immunoassay-based diagnostic technology that combines the performance of a clinical lab with the convenience of a dipstick test - establishing a new paradigm in diagnostic testing. Immunoassays are extremely sensitive and specific tests used to identify and measure small quantities of materials, such as proteins. Any biological molecule and most inorganic materials can be targeted. Accordingly, the RAMP technology is applicable to multiple distinct market segments and many products within those segments. RAMP tests are now commercially available for use in the early detection of heart attack, congestive heart failure, environmental detection of West Nile Virus, and biodefence applications including the rapid on-site detection of anthrax, smallpox, ricin and botulinum toxin.

These unaudited interim consolidated financial statements have been prepared on a basis consistent with the Company's annual audited consolidated financial statements as at December 31, 2007, with the exception of adopting new standards as disclosed in Note 2, 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 June 30, 2008 had an accumulated deficit of \$74,777,728 and has not generated positive cash flow from operations, accordingly, there is significant uncertainty about the Company's ability to continue as a going concern. Management has been able, thus far, to finance the operations through a series of debt and equity financings. During the three and six month periods ending June 30, 2008, the Company received cash from the exercise of outstanding stock options in the amount of \$31,530 and \$37,321, respectively and received cash from the exercise of outstanding share purchase warrants in the amount of \$3,676,748 and \$3,896,848, respectively. 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 June 30, 2008 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

June 30, 2008

(Unaudited - Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are disclosed in Note 2 of its audited consolidated financial statements as at and for the year ended December 31, 2007. There were no significant adoptions or changes in accounting policies since the fiscal year ended December 31, 2007 other than those noted in Note 3.

3. CHANGES IN ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS

CHANGES IN ACCOUNTING POLICIES

Capital Disclosures

Effective January 1, 2008, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) under CICA Handbook Section 1535 - "Capital Disclosures" ("Section 1535"). Section 1535 requires a company to disclose information that enables users of its financial statements to evaluate the Company's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. This accounting policy change was adopted on a prospective basis [Note 5] with no restatement of prior period unaudited interim consolidated financial statements.

Inventory

Effective January 1, 2008, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) under CICA Handbook Section 3031 - "Inventories", which replaces Section 3030, of the same name. The new section provides guidance on the basis and method of measurement of inventories and allows for reversal of previous write-downs. The section also establishes new standards on disclosure of accounting policies used, carrying amounts, amounts recognized as an expense, write-downs and the amount of any reversal of any write-downs. This accounting policy change was adopted on a prospective basis with no restatement of prior period unaudited interim consolidated financial statements.

Financial Instruments

Effective January 1, 2008, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) under CICA Handbook Sections 3862 and 3863 - "Financial Instruments - Presentation" ("Sections 3862 and 3863"). Sections 3862 and 3863 require an increased emphasis on disclosures about the nature and extent of risk arising from financial instruments and how a company manages these risks.

On January 8, 2008 the Accounting Standards Board issued EIC-169 which provides guidance on how Section 3855 of the CICA Handbook defines or applies the term "routinely denominated in commercial transactions around the world". The Company has contracts with key customers denominated in foreign currencies which are embedded derivatives as defined by Section 3855, however these contracts do not currently have a material affect on the Company's unaudited interim consolidated financial statements. Management is aware of the possible impacts of EIC-169 and monitors and analyses existing and future contracts to ascertain the extent of the impact on the Company's unaudited interim consolidated financial statements.

Response Biomedical Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(Unaudited - Expressed in Canadian dollars)

3. CHANGES IN ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS (cont'd)

RECENT ACCOUNTING PRONOUNCEMENTS

The Accounting Standards Board of the CICA announced that Canadian Generally Accepted Accounting Principles ("GAAP") for publicly accountable enterprises will be replaced with International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011.

Implementing IFRS will have an impact on accounting, financial reporting and supporting IT systems and processes. It may also have an impact on taxes, contractual commitments involving GAAP based clauses, long-term employee compensation plans and performance metrics. Accordingly, when the Company develops its IFRS implementation plan, it will have to include measures to provide extensive training to key finance personnel, to review contracts and agreements and to increase the level of awareness and knowledge amongst management, the Board of Directors and Audit Committee. Additional resources may be engaged to ensure the timely conversion to IFRS.

4. RESTRICTED CASH AND HOLDBACK PAYABLE

Restricted cash represents the proceeds of a 10% holdback of payments payable to a company contracted to perform upgrades to the Company's new leased premise [Note 13 [e][ii]]. The offsetting holdback payable is disclosed on the consolidated balance sheets under current liabilities. The restricted cash will be disbursed when both parties agree that the upgraded project is substantially complete.

Response Biomedical Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(Unaudited - Expressed in Canadian dollars)

5. CAPITAL MANAGEMENT

The Company's objectives when managing its capital are to safeguard the Company's ability to continue as a going concern so it may provide returns to shareholders and benefits to stakeholders. This is accomplished by pricing products and services commensurately with the Company's strategies to maximize long-term profits and cash flows, and to obtain funding on terms that maximize shareholder value. The Company monitors the debt to equity ratio, which it defines as total liabilities divided by shareholder's equity as disclosed in the unaudited interim consolidated balance sheets.

In the six months ended June 30, 2008, 6,285,239 warrants that were set to expire on March 30, 2008 were exercised for total proceeds of \$3,898,848 [Note 11[f]].

The Company has one externally imposed capital requirement. To secure the facility lease, the Company is maintaining a security deposit with the landlord in the form of an irrevocable letter of credit disclosed as restricted investment in the long-term asset section of the consolidated balance sheets [Notes 9[c]] and 13[e][ii]].

The Company has not revised its capital management strategies during the six months ended June 30, 2008.

6. FINANCIAL INSTRUMENTS

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

Under CICA Handbook 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 value except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Transaction costs are included in the carrying amounts of financial instruments as they are carried on the balance sheet. 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.

The Company has classified its cash and cash equivalents and short-term investments as held-for-trading. Restricted cash and restricted investment are classified as held-to-maturity. Trade receivables and other receivables are classified as loans and receivables. Accounts payable, holdback payable and repayable leasehold improvement allowance are classified as other financial liabilities.

Response Biomedical Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(Unaudited - Expressed in Canadian dollars)

6. FINANCIAL INSTRUMENTS (cont'd)

Carrying value and fair value of financial assets and liabilities as at June 30, 2008 and December 31, 2007 are summarized as follows:

	June 30, 2008		December 31, 2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	\$	\$	\$	\$
Held-for-trading	3,515,140	3,515,140	8,204,647	8,204,647
Loans and receivables	1,286,976	1,286,976	2,060,731	2,060,731
Held-to-maturity	1,709,926	1,709,926	981,902	981,902
Other liabilities	10,919,859	10,919,859	4,186,872	4,186,872
	17,431,901	17,431,901	15,434,152	15,434,152

Market Risk

Currency Risk

The Company is subject to foreign exchange risk as a significant portion 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.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to interest rate risk is limited as its cash, cash equivalents and restricted cash are short-term in nature.

Other Price Risk

Other price risk is the risk that the future value or cash flows of a financial instrument will fluctuate because of changes in market prices. Exposure to price risk is low as the Company's cash management policy is to invest excess cash in high grade/low risk investments over short periods of time.

Credit Risk

Credit risk is the risk of a financial loss if a customer or counterparty to a financial instrument fails to meet its obligations under a contract. The risk arises primarily from the Company's receivables from customers.

The Company's exposure to credit risk is dependent upon the characteristics of each customer. The Company performs ongoing credit checks on its customers and requires orders to be prepaid by certain customers.

Response Biomedical Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(Unaudited - Expressed in Canadian dollars)

6. FINANCIAL INSTRUMENTS (cont'd)

Credit Risk (cont'd)

As at June 30, 2008, four customers represent 77% [December 31, 2007 – four customers represent 78%] of the trade receivables balance. For the three and six month periods ended June 30, 2008, four and four customers represent 67% and 52% [three and six month periods ended June 30, 2007 – two and two customers represent 36% and 28%, respectively] of total product sales, respectively. For both the three and six month periods ended June 30, 2008, one customer represents 100% [three and six month periods ended June 30, 2007 – one customer represents 100%] of total service revenues.

On a regular basis, the Company reviews the collectibility of its accounts receivable and establishes an allowance for doubtful accounts based on its best estimates of any potentially uncollectible accounts. As at June 30, 2008, the balance of the Company's allowance for doubtful accounts was \$12,029 [December 31, 2007 - \$Nil]. The Company has good credit history with its customers and the amounts due from them are received as expected.

Pursuant to their respective terms, accounts receivable are aged as follows at June 30, 2008:

Current	\$	348,360
0-30 days		120,402
31-60 days		52,188
61-90 days		93,015
Over 90 days due		10,175
	\$	624,140

Other receivables as at June 30, 2008 was \$662,836.

Response Biomedical Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(Unaudited - Expressed in Canadian dollars)

6. FINANCIAL INSTRUMENTS (cont'd)

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company continuously monitors actual and forecasted cash flows to ensure, as far as possible, there is sufficient working capital to satisfy its operating requirements.

Pursuant to their respective terms, accounts payable are aged as follows at June 30, 2008:

Current	\$	978,497
0-30 days		358,610
31-60 days		14,577
61-90 days		2,164
Over 90 days due		4,891
		<u>\$ 1,358,739</u>

7. INVENTORIES

	June 30 2008	December 31, 2007
	\$	\$
Raw materials	<u>586,462</u>	575,121
Work in process	<u>600,709</u>	270,352
Finished goods	<u>1,200,929</u>	308,033
	<u>2,388,100</u>	1,153,506

The carrying value of inventory as at June 30, 2008 includes a provision for lower-of-cost and net realizable value in the amount of \$162,895 [December 31, 2007 - \$Nil].

Response Biomedical Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(Unaudited - Expressed in Canadian dollars)

8. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated amortization	Net book value
	\$	\$	\$
June 30, 2008			
Office furniture and equipment	931,617	66,310	865,307
Office computer equipment	195,652	114,075	81,577
Laboratory furniture and equipment	499,460	441,474	57,986
Laboratory computer equipment	402,983	339,418	63,565
Computer software	307,096	226,878	80,218
Manufacturing equipment	1,914,268	279,158	1,635,110
Manufacturing molds	596,940	291,785	305,155
Leasehold improvements	9,287,275	153,349	9,133,926
	14,135,291	1,912,447	12,222,844
December 31, 2007			
Office furniture and equipment	437,619	20,789	416,830
Office computer equipment	168,709	94,718	73,991
Laboratory furniture and equipment	471,624	430,437	41,187
Laboratory computer equipment	361,776	316,846	44,930
Computer software	307,096	179,807	127,289
Manufacturing equipment	1,644,216	199,693	1,444,523
Manufacturing molds	593,913	184,980	408,933
Leasehold improvements	2,530,270	39,962	2,490,308
	6,515,223	1,467,232	5,047,991

Amortization expense for the three and six month periods ended June 30, 2008 amounted to \$296,096 and \$445,215 [2007 - \$75,383 and \$153,416], respectively.

The following property, plant and equipment were not yet in service and hence not amortized:

	June 30 2008	December 31, 2007
	\$	\$
Deposits paid for furniture and equipment purchases	-	416,830
Assets related to the automation of the Company's manufacturing processes	900,588	842,965
Leasehold improvements related to leased premises not yet occupied	-	2,484,159
	900,588	3,743,954

Response Biomedical Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(Unaudited - Expressed in Canadian dollars)

9. LEASE INDUCEMENTS

During the year ended December 31, 2007 the Company entered into a 15 year lease agreement for a new premise [Note 13[e][ii]]. The agreement provides for lease inducements to be provided by the landlord to the Company.

The lease inducements disclosed on the consolidated balance sheets as a result of these benefits is comprised of the following:

	June 30, 2008	December 31, 2007
	\$	\$
Deferred Lease Inducements		
Rent-free inducement [a]	814,164	718,380
Less: amortization	(22,615)	-
	791,549	718,380
Non-repayable leasehold improvement allowance [b]	1,708,000	438,219
Less: amortization	(28,467)	-
	1,679,533	438,219
Repayable Lease Inducement		
Repayable leasehold improvement allowance [c]	7,273,169	1,976,141
Less: repayments	(89,600)	-
	7,183,569	1,976,141
Total	9,654,651	3,132,740

Summarized as to:

Current Portion

Rent-free inducement [a]	54,278	43,901
Non-repayable leasehold improvement allowance [b]	113,867	26,780
Repayable leasehold improvement allowance [c]	232,478	120,764
Current portion	400,623	191,445
Long-term portion	9,254,028	2,941,295
Total	9,654,651	3,132,740

[a] The Company negotiated a long-term lease agreement for the 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 is being amortized on a straight-line basis over the term of the operating lease as a reduction to rental expense.

[b] The Company negotiated a non-repayable allowance for expenditures related to general upgrades to the new premise. As per the terms of the lease, the maximum allowance under this arrangement is \$1.708 million. The lease inducement benefit arising from the non-repayable leasehold improvement allowance is being amortized on a straight-line basis over the term of the operating lease as a reduction to rental expense.

Response Biomedical Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(Unaudited - Expressed in Canadian dollars)

9. 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 new premise. This lease inducement is being repaid over the term of the operating lease commencing February 1, 2008 at approximately \$90,928 per month including interest calculated at an interest rate negotiated between the Company and the landlord.

The Company was not required to provide any collateral on this repayable leasehold improvement allowance, however, 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 [December 31, 2007 - \$870,610] (market value of investment securing the letter of credit - \$873,562, December 31, 2007 - \$875,375) [Note 13[e][ii]].

Future principal repayments due to be paid on the maximum repayable leasehold improvement allowance to be drawn are estimated as follows:

June 30,	\$
2009	232,478
2010	259,380
2011	289,395
2012	322,884
2013	360,248
Thereafter	6,446,013
	7,910,398

10. DEFERRED REVENUE

	June 30, 2008	December 31, 2007
	\$	\$
Beginning balance:		
Product sales	206,480	216,162
Additions:		
Product sales	45,476	108,006
Recognition of revenue:		
Product sales	(85,114)	(117,688)
Ending balance:		
Product sales	166,842	206,480
Total	166,842	206,480
Summarized as to:		
Current portion deferred revenue	94,323	126,333
Long - term portion deferred revenue	72,519	80,147
Total	166,842	206,480

Response Biomedical Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(Unaudited - Expressed in Canadian dollars)

11. SHARE CAPITAL AND CONTRIBUTED SURPLUS

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

[b] **Issued**

	Issued and Outstanding Number	Amount	Contributed Surplus
	#	\$	\$
Balance, December 31, 2006	113,464,862	56,868,133	7,479,125
Issued for cash:			
Exercise of warrants	3,169,006	1,741,159	-
Exercise of stock options	1,343,763	689,412	-
Private placement, net of issue costs [i]	12,000,000	11,123,331	-
Issued for non-cash consideration:			
Value of warrants exercised	-	545,818	(545,818)
Stock-based compensation related to stock options exercised	-	425,703	(425,704)
Stock-based compensation [note 11 [d]]	-	-	665,185
Balance, December 31, 2007	129,977,631	71,393,556	7,172,788
Issued for cash:			
Exercise of warrants [iii]	6,285,239	3,896,848	-
Exercise of stock options	72,470	37,321	-
Issued for non-cash consideration:			
Value of warrants exercised	-	1,039,578	(1,039,578)
Stock-based compensation related to stock options exercised	-	23,657	(23,657)
Stock-based compensation [note 11 [d]]	-	-	362,372
Balance, June 30, 2008	136,335,340	76,390,960	6,471,925

[i] On July 23, 2007, the Company closed a private placement consisting of 12,000,000 shares at a price of \$1.00 per share. Gross proceeds were \$12,000,000 before share issuance costs of \$876,669 for net proceeds of \$11,123,331.

[ii] On December 11, 2006 the Company closed a private placement for gross proceeds of \$9,174,400 (US \$8,000,000) before share issuance costs of \$44,561, for net proceeds of \$9,129,839 comprising of 14,797,419 shares at a price of \$0.62 per share.

Response Biomedical Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(Unaudited - Expressed in Canadian dollars)

11. SHARE CAPITAL AND CONTRIBUTED SURPLUS (cont'd)

[iii] 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. The Company also issued 1,400,000 agent's warrants, each warrant entitling 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 were classified as a separate component of equity, the fair value of which was determined using the Black-Scholes pricing model using the following assumptions: dividend yield 0.0%; expected volatility 74%; risk-free interest rate 4.01%; and expected life of 2 years. Accordingly, \$2,412,000 of the proceeds, less \$195,641 in issue costs, was allocated as the fair value of the warrants, which was recorded in contributed surplus in the consolidated balance sheet.

During the three month period ended March 31, 2008, 6,285,239 of the 13,400,000 share purchase warrants issued were exercised for proceeds of \$3,896,848 of which \$3,676,748 was received in April 2008.

[c] Stock option plan

At the Annual General Meeting held June 3, 2008, the Company's shareholder's approved a new stock option plan (the "2008 Plan") to be compliant with the TSX rules following the listing of the Company's shares on the TSX in December 2007. Of the 17,000,000 stock options authorized for grant under the 2008 Plan, 3,027,767 stock options are available for grant at June 30, 2008.

At June 30, 2008, the following stock options were outstanding:

Options outstanding June 30, 2008				Options exercisable June 30, 2008		
Range of exercise price \$	Number of shares under option #	Weighted average contractual life (years)	Weighted average exercise price \$	Number of options currently exercisable #	Weighted average exercise price \$	
0.33 – 0.39	13,000	2.30	0.33	13,000	0.33	
0.40 – 0.49	60,387	2.48	0.47	28,032	0.45	
0.50 – 0.59	3,291,500	2.66	0.56	1,163,240	0.56	
0.60 – 0.69	2,037,675	3.80	0.67	132,895	0.66	
0.70 – 0.79	314,600	1.69	0.74	232,626	0.73	
0.80 – 0.89	1,800,800	2.79	0.85	814,490	0.81	
0.90 – 0.99	75,000	2.87	0.91	18,750	0.91	
1.00 – 1.10	2,302,513	4.17	1.05	54,823	1.09	
0.33 – 1.10	9,895,475	3.24	0.76	2,457,856	0.68	

The options expire at various dates from July 24, 2008 to April 21, 2013.

Response Biomedical Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(Unaudited - Expressed in Canadian dollars)

11. SHARE CAPITAL AND CONTRIBUTED SURPLUS (cont'd)

[c] 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
	#	\$
Balance, December 31, 2006	7,593,350	0.61
Options granted	4,988,913	0.89
Options forfeited	(96,750)	0.75
Options cancelled	(404,125)	0.66
Options expired	(159,250)	0.66
Options exercised	(1,343,763)	0.51
Balance, December 31, 2007	10,578,375	0.75
Options granted	539,150	0.69
Options forfeited	(482,110)	0.74
Options cancelled	(564,720)	0.63
Options expired	(102,750)	0.57
Options exercised	(72,470)	0.51
Balance, March 31, 2008	9,895,475	0.76

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 year ended 2007 and in the six month period ended June 30, 2008.

Response Biomedical Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(Unaudited - Expressed in Canadian dollars)

11. SHARE CAPITAL AND CONTRIBUTED SURPLUS (cont'd)

[d] Stock-based compensation

For the three and six month periods ended June 30, 2008, the Company recognized total stock-based compensation of \$183,712 and \$362,372 [2007 - \$110,062 and \$211,682], respectively. For the three and six month periods ended June 30, 2008, compensation expense was \$182,704 and \$357,976 [2007 - \$103,130 and \$191,577] respectively as a result of stock options granted to officers, directors and employees and \$1,008 and \$4,396 [2007 - \$6,932 and \$20,105] 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		Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Dividend yield	0%	0%	0%	0%
Expected volatility	70%	74%	70%	73%
Risk-free interest rate	2.88%	4.07%	2.88%	4.09%
Expected life in years	3.00	3.74	3.00	4.15
Fair value per share	\$0.38	\$0.50	\$0.38	\$0.41

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
Cost of sales - products and services	13,024	7,104	24,505	13,639
Research and development	26,618	13,576	48,241	24,177
Marketing and business development	18,297	10,726	36,240	15,555
General and administrative	125,773	78,656	253,386	158,311
	183,712	110,062	362,372	211,682

Response Biomedical Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(Unaudited - Expressed in Canadian dollars)

11. SHARE CAPITAL AND CONTRIBUTED SURPLUS (cont'd)

[e] 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 June 30, 2008, 412,500 common shares have been released from escrow leaving a balance of escrow shares as at June 30, 2008 of 412,500.

[f] Common share purchase warrants

At June 30, 2008, there were no common share purchase warrants outstanding.

Common share purchase warrant transactions are summarized as follows:

	Number of warrants #	Weighted average exercise price \$
Balance, December 31, 2006	15,263,540	0.61
Warrants exercised	(3,169,006)	0.55
Balance, December 31, 2007	12,094,534	0.62
Warrants exercised	(6,285,239)	0.62
Warrants expired	(5,809,295)	0.62
Balance, June 30, 2008	-	-

[g] Loss per common share

	Three Months Ended		Six Months Ended	
	2008	June 30, 2007	2008	June 30, 2007
	\$	\$	\$	\$
Numerator				
Loss for the period	(3,740,494)	(3,987,766)	(7,284,605)	(6,708,865)
Denominator				
Weighted average number of common shares outstanding	136,319,149	114,373,248	133,172,754	114,033,963
Loss per common share - basic and diluted	(\$0.03)	(\$0.03)	(\$0.05)	(\$0.06)

Response Biomedical Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(Unaudited - Expressed in Canadian dollars)

12. RELATED PARTY TRANSACTIONS

[a] The following expenses were incurred by the Company for services provided by directors or companies related to or under their control:

	Three Months Ended		Six Months Ended	
	2008	June 30, 2007	2008	June 30, 2007
	\$	\$	\$	\$
General and administrative				
Strategic consulting services	250,000	-	250,000	-
Directors' fees	36,000	-	60,000	-
Legal fees	29,119	14,364	30,977	16,872
	315,119	14,364	340,977	16,872

Strategic consulting services fees in the amount of \$250,000 were incurred by the Company for extraordinary services provided by a non-management member of the Board of Directors in the three month period ended June 30, 2008. This amount remains outstanding and is included in the balance of accrued and other liabilities as at June 30, 2008. In the first quarter of 2008, \$250,000 was paid by the Company for extraordinary services provided in a prior period by a non-management member of the Board of Directors. No such expenses were incurred or paid in the three and six month periods ended June 30, 2007.

For the three and six month periods ended June 30, 2008, directors' fees totaling \$36,000 and \$60,000, respectively were incurred by the Company for routine services provided by non-management members of the Board of Directors. As at June 30, 2008, \$60,000 remained outstanding and was included in the balance of accrued and other liabilities. No payments have been made in the six month period ended June 30, 2008. No such expenses were incurred or paid in the three and six month periods ended June 30, 2007.

The Company retains a law firm where a corporate partner is a non-management member of the Board of Directors. For the three and six month periods ended June 30, 2008, the Company incurred legal fees from this law firm totaling \$29,119 and \$30,977 [2007 - \$14,364 and \$16,872], respectively. As at June 30, 2008, \$14,996 remained outstanding and was included in the balance of accounts payable.

For the three and six month periods ended June 30, 2008, the Company paid legal fees to this law firm totaling \$15,780 and \$31,635 [2007 - \$2,650 and \$13,317], respectively.

Response Biomedical Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(Unaudited - Expressed in Canadian dollars)

12. RELATED PARTY TRANSACTIONS (cont'd)

[b] In 2006, the Company entered into an agreement with a development partner, whereby the development partner became a shareholder of the Company.

The Company earned revenues from this development partner as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
Product revenues	2,957	-	181,976	1,247
Contract service fees and revenues from collaborative research arrangements	150,908	311,547	226,544	311,547
	153,865	311,547	408,520	312,794

As at June 30, 2008, \$59,412 of this revenue is included in the balance of trade receivables. As a term of a collaborative research arrangement with the development partner a balance of \$94,453 is included in other receivables and is expected to be received in the last quarter of 2008 upon the successful completion of certain provisions of the agreement.

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

13. 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.

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 incurred an expense of \$2,500 and \$5,000 in the three and six month periods ended June 30, 2008 [2007 - \$1,667 and \$4,167].

Response Biomedical Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(Unaudited - Expressed in Canadian dollars)

13. COMMITMENTS AND CONTINGENCIES (cont'd)

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

[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 six month periods ended June 30, 2008, the Company incurred an expense of \$29,828 and \$42,131 [2007 - \$10,767 and \$20,629], 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 was October 1, 2005 to December 14, 2007. The property sublease agreement term was extended from December 14, 2007 to March 31, 2008. For the duration of the sublease extension term, the Company is required to pay the sub-landlord a total gross monthly rent of approximately \$79,000 including maintenance and utilities. Rent expense and related fees for the three and six month periods ended June 30, 2008 was negative \$13,750 and positive \$223,810 [2007 - \$164,052 and \$350,489].

Response Biomedical Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(Unaudited - Expressed in Canadian dollars)

13. COMMITMENTS AND CONTINGENCIES (cont'd)

[e] Lease agreements (cont'd)

- [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 March 2008. Rent is payable from February 1, 2008 to January 31, 2023. For the first year of the lease period, the Company is required to pay the landlord total gross monthly payments of approximately \$160,000, which is comprised of base rent, administrative and management fees, estimated property taxes and repayments of the repayable lease inducement [Note 9[c]].

For the three and six month periods ended June 30, 2008, \$417,812 and \$877,007 [2007 - \$Nil], respectively was incurred for expenses related to base rent, administrative and management fees, estimated property taxes, rent-free inducement and interest on repayments of the repayable lease inducement offset by amortization of both the rent-free inducement [Note 9[a]] and non-repayable leasehold improvement allowance [Note 9[b]].

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 (market value - \$873,562) disclosed as restricted investment in the long-term asset section of the consolidated balance sheets.

- [iii] The Company entered into a number of operating leases to lease various administrative equipment.

- [e] [iv] The minimum annual cost of lease commitments is estimated as follows:

Years ending,	Premise*	Equipment	Total
	\$	\$	\$
2008	963,689	15,120	978,809
2009	1,950,143	30,240	1,980,383
2010	1,973,566	30,240	2,003,806
2011	1,997,663	30,240	2,027,903
2012	2,022,456	7,560	2,030,016
Thereafter	21,756,386	-	21,756,386
	30,663,903	113,400	30,777,303

* Includes base rent, administrative and management fees, estimated property taxes and repayable lease inducement payments

[f] Commitments to purchase equipment

At June 30, 2008, the Company has outstanding purchase order commitments totaling \$100,760 related to the purchase of equipment and furniture.

Response Biomedical Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(Unaudited - Expressed in Canadian dollars)

14. 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 both the three and six month periods ended June 30, 2008, \$150,908 and \$226,543 of the Company's contract service fees and revenues from collaborative research arrangements were generated from one customer [2007 – one customer for a total of \$311,547 for both the three and six month periods].

Contract service fees and revenues from collaborative research arrangements by geographic location were as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
United States	150,908	311,547	226,544	311,547
Asia	684	-	684	-
Total	151,592	311,547	227,228	311,547

For the three and six month periods ended June 30, 2008, \$523,551 and \$874,131 in product sales were generated from three customers [2007 – two customers for a total of \$244,671, respectively, and two customers for a total of \$495,601].

Product sales by customer location were as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
United States	510,221	199,913	965,006	596,317
Asia	43,340	198,721	389,351	498,271
Canada	127,642	139,735	317,527	207,814
Europe	163,711	131,052	270,515	314,145
Other	1,009	18,568	1,009	151,906
Total	845,923	687,989	1,943,408	1,768,453

Product sales by type of product were as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
Clinical products	380,931	449,804	1,150,076	1,057,380
Vector products (West Nile Virus)	371,977	130,265	503,642	230,670
Bio-defense products	93,015	107,920	289,690	480,403
Total	845,923	687,989	1,943,408	1,768,453

Response Biomedical Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(Unaudited - Expressed in Canadian dollars)

15. COMPARATIVE FIGURES

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

16. SUBSEQUENT EVENTS

In July 2008, the Company announced receipt of United States Food and Drug Administration 510(k) clearance to market the rapid NT-proBNP test as an aid to the rapid diagnosis of heart failure. The test, manufactured by Response Biomedical, will be marketed and sold worldwide outside of Japan by Roche Diagnostics.

