



 **Response**  
Biomedical Corporation

2009 1st 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 consolidated financial statements of Response Biomedical Corporation ("Response Biomedical" or the "Company") as at and for the three month period ended March 31, 2009 and 2008 and the audited consolidated financial statements as at and for each of the years in the three year period ended December 31, 2008, including the related notes therein, prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). These documents are available on the SEDAR website at [www.sedar.com](http://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 May 4, 2009.

### **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.

In advance of expected growth of its products, the Company has been investing significantly, since 2007, to increase automation, quality and capacity of its manufacturing operations. Once manufacturing scale up is complete, these investments will result in increased production capacity from approximately 500,000 tests per shift per year to approximately 4 million tests per shift per year in its new facility. The higher overhead from these investments, including amortization, is resulting in higher per unit costs impacting gross margins however; in the longer-term the Company expects gross margins to increase as sales volumes rise.

The Company currently has sales and marketing partnerships with Shionogi & Co., Ltd. to market its B-type natriuretic peptide ("BNP") test in Japan, Roche Diagnostics ("Roche") to market the Company's line of cardiovascular point-of-care tests worldwide outside of Japan and 3M Company ("3M") for its infectious disease products. With its initial shipments to Roche in the first quarter of 2009, the Company has strong partners in place across the globe for its clinical product line.

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

Clinical products revenue for the three month period ended March 31, 2009 increased 127% to \$1,742,707 compared to \$769,145 for the same period in 2008.

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Vector products (West Nile Virus) revenue for the three month period ended March 31, 2009 increased 225% to \$428,038 compared to \$131,665 for the same period in 2008.

Biodefense products revenue for the three month period ended March 31, 2009 decreased 45% to \$108,832 compared to \$196,676 for the same period in 2008.

Contract service fees and revenue from collaborative research arrangements for the three month period ended March 31, 2009 increased 472% to \$432,824 compared to \$75,635 for the same period in 2008.

As at March 31, 2009, the Company had \$706,509 in cash and cash equivalents, a decrease of \$1,548,143 compared to \$2,254,652 as at December 31, 2008. As at March 31, 2009, the Company had a working capital balance of \$1,582,577, a decrease of \$1,364,211 compared to \$2,946,788 as at December 31, 2008.

2009 key operational milestones included:

- On February 12, 2009, the Company announced that Roche Diagnostics has agreed to fund two new projects aimed at strengthening the commercial success of the Response cardiovascular line of products. The first project approved for funding is to complete a submission for a CLIA-waiver for the RAMP® NT-proBNP assay. The second project is the development of a next-generation Troponin I (TnI) assay.
- On March 26, 2009, the Company announced that it has signed a collaboration/grant with Foundation for Innovative New Diagnostics ("FIND") to start developing a rapid point-of-care tuberculosis diagnostic assay. The first phase of this collaboration grant is a feasibility study. If successful, a second phase may follow and involve testing optimized assays on simulated samples at Response Biomedical.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The Company's unaudited 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, estimated life of property, plant and equipment, recovery of the carrying value of long-lived assets, 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, 2008. 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 2008 audited consolidated financial statements, is available by accessing the SEDAR website at [www.sedar.com](http://www.sedar.com).

### **Revenue Recognition**

Product sales are recognized upon the shipment of products to distributors, if a signed contract exists, the sales price is fixed and determinable, collection of the resulting

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receivables is reasonably assured and any uncertainties with regard to customer acceptance are insignificant. Sales are recorded net of discounts and sales returns. 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, require the ongoing involvement of the Company and are directly linked to specific milestones are deferred and amortized into income as services are rendered. Upfront fees from collaborative research arrangements which are non-refundable, require the ongoing involvement of the Company and are not directly linked to specific milestones 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.

Effective January 1, 2009, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) under CICA Handbook Section 3064 - "Goodwill and Intangible Assets". This section replaces existing Section 3062 "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development". The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets.

### **Deferred Lease Inducement**

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

### **Stock-Based Compensation**

The Company grants stock options to executive officers, directors, employees and consultants pursuant to a stock option plan described in Note 10[c] to the unaudited consolidated financial statements as at March 31, 2009. The Company uses the fair value method of accounting for all stock-based awards for non-employees and for all stock-based awards to employees that were granted, modified or settled since January 1, 2003. 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. The initial recognition of and subsequent adjustments to the warranty accrual are recorded to cost of sales.

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### CHANGES IN ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS

#### CHANGES IN ACCOUNTING POLICIES

##### Goodwill and Intangible Assets

Effective January 1, 2009, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) under CICA Handbook Section 3064 - "Goodwill and Intangible Assets". This section replaces existing Section 3062 "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development". The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The impact of this change in accounting policy on prior periods is as follows:

	<b>Three Month Period Ended March 31, 2008</b>	<b>Year Ended December 31, 2008</b>
	\$	\$
<b>Consolidated Balance Sheets</b>		
Decrease in property, plant and equipment	(55,511)	(114,297)
Increase in intangible assets	55,511	114,297
<b>Consolidated Statements of Loss and Cash Flows</b>		
Decrease in amortization of property, plant and equipment	(21,933)	(69,698)
Increase in amortization of intangible assets	21,933	69,698
Decrease in acquisition of property, plant and equipment	-	(59,926)
Increase in acquisition of intangible assets	-	59,926

The following table outlines the restated computer software amounts included in intangible assets:

	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net book value</b>
	\$	\$	\$
<b>March 31, 2009</b>	<b>333,728</b>	<b>218,926</b>	<b>114,802</b>
December 31, 2008	329,713	215,416	114,297
March 31, 2008	269,787	167,651	102,137

Of the \$114,802 in intangible assets as at March 31, 2009, \$105,953 is related to software not yet put in use [December 31, 2008 - \$105,112].

### RECENT ACCOUNTING PRONOUNCEMENTS

#### International Financial Reporting Standards ("IFRS")

In 2005, the Accounting Standards Board announced that Canadian Generally Accepted Accounting Principles are to be converged with IFRS. On February 13, 2008 the CICA confirmed that the use of IFRS is required for fiscal years beginning on or after January 1, 2011, with appropriate comparative data from the prior year.

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Under IFRS, there is significantly more disclosure required, specifically for interim reporting. In addition, while IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policies that must be addressed. While the Company has commenced assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

### **RESULTS OF OPERATIONS**

For the three month periods ended March 31, 2009 and 2008:

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

Revenues from product sales for the three month period ended March 31, 2009 increased 108% to \$2,279,577 compared to \$1,097,486 for the same period in 2008.

Clinical products revenue for the three month period ended March 31, 2009 increased 127% to \$1,742,707 compared to \$769,145 for the same period in 2008. This increase is primarily the result of Roche Diagnostics' launch of the Company's cardiac products in the U.S. as well as an increase in demand from existing distributors and marketing partners. In the long-term, the Company expects clinical products revenue to increase as newly launched products penetrate the marketplace and the Company completes the scale up and automation of its manufacturing operations. In the short term, the clinical products revenue may vary depending on the timing of orders from its distributors and marketing partners.

Vector products (West Nile Virus) revenue for the three month period ended March 31, 2009 increased 225% to \$428,038 compared to \$131,665 for the same period in 2008. This increase is primarily due to expanded usage by U.S. municipal health authorities, increased sales efforts by distributors and the timing of shipments. In the future, the Company expects the sales of West Nile Virus products to fluctuate at varying levels.

Biodefense products revenue for the three month period ended March 31, 2009 decreased 45% to \$108,832 compared to \$196,676 for the same period in 2008. The decrease is primarily due to reduced funding from governmental agencies for deployed detection capabilities, general decrease in concern over biological attacks and a substantially penetrated target market. In the future, the Company expects the sales of biodefense products to continue at similar levels.

Contract service fees and revenue from collaborative research arrangements for the three month period ended March 31, 2009 increased 472% to \$432,824 compared to \$75,635 for the same period in 2008. 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 contract service fees and revenue from collaborative research arrangements to increase as a result of funding by its partners for further advancements resulting in greater market competitiveness for some assays currently available for sale as well as the development of new assays to expand and complement our existing products.

Cost of sales for the three month period ended March 31, 2009 increased 93% to \$1,928,771 compared to \$1,001,329 for the same period in 2008. 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 engaged in manufacturing activities.

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Overall gross margin from product sales for the three month period ended March 31, 2009 was 15% compared to 9% for the same period in 2008. The increase in gross margin is primarily due to a shift in product mix partially offset by increased costs related to the new facility and implementation of new manufacturing equipment, processes and personnel as a result of the Company's scale up efforts. In the short-term, the Company expects variation in gross margin however, in the longer-term, the Company expects gross margins to increase as sales volumes rise.

### **Expenses**

Research and development expenditures for the three month period ended March 31, 2009 decreased by 31% to \$1,229,866 from \$1,794,921 for the same period in 2008. The decrease is primarily related to decreased clinical trial and development expenditures totaling \$439,000, reduced professional charges totaling \$92,000, lower legal fees in the amount of \$46,000, reduced overhead expenditures in the amount of \$24,000 partially offset by increased amortization relating to the new facility in totaling \$63,000.

General and administrative expenditures for the three month period ended March 31, 2009 decreased 43% to \$715,775 from \$1,247,151 for the same period in 2008. The decrease is primarily due to reduced rent charges in the amount of \$347,000 mainly related to the new facility that prior to occupancy in the year 2008 were fully charged to general and administrative expenses, reduced administrative expenses totaling \$127,000, decreased salaries totaling \$113,000, partially offset by increased legal expenses in amounts of \$49,000 and increased amortization relating to the new facility in amounts of \$31,000.

Sales and marketing expenditures for the three month period ended March 31, 2009 decreased 38% to \$380,695 from \$614,042 for the same period in 2008. The decrease is primarily due to reduced salaries expenses totaling \$168,000, lower charges allocated for overhead totaling \$33,000, reduced travel and conference expenditures totaling \$30,000, lower selling expenses in the amount of \$24,000 partially offset by increased amortization relating to the new facility in the amount of \$15,000 and higher administrative expenses in totaling \$10,000.

### **Other Income/Expenses**

For the three month period ended March 31, 2009, interest expense amounted to \$208,196 compared to \$146,507 for the same period in 2008. The increase is due to the interest portion on the repayment of the repayable leasehold improvement allowance related to the new facility operating lease agreement.

During the three month period ended March 31, 2009, the Company earned interest income of \$7,551 as compared to \$40,159 for the same period in 2008. The decrease is as a result of lower average funds on deposit and declining interest rates.

During the three month period ended March 31, 2009, the Company had a foreign exchange gain of \$11,936 as compared to \$46,559 for the same period in 2008. Foreign exchange gains and losses are largely due to US dollar balances of cash and cash equivalents, accounts receivable and accounts payable affected by the fluctuations in the value of the US dollar as compared to the Canadian dollar. The Company uses the exchange rate posted on the Federal Reserve Bank of New York website ([www.ny.frb.org](http://www.ny.frb.org)) for the last business day of each period. The exchange rate as at March 31, 2009 was \$0.7935 US per CDN dollar [December 31, 2008 - \$0.8170, December 31, 2007 - \$1.012].

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### Loss

For the three month period ended March 31, 2009, the Company reported a loss of \$1,731,415 or \$0.01 per share compared to a loss of \$3,544,111 or \$0.03 per share for the same period in 2008. This 51% decrease in the loss is primarily due to higher gross profit margin on product sales, higher contract service fee and revenues from collaborative research arrangements and reduced expenses across all departments, partially offset by higher interest expense, lower interest income and decreased foreign exchange gain.

### SUMMARY OF QUARTERLY RESULTS

The table below sets forth selected data derived from the Company's unaudited consolidated financial statements prepared in accordance with Canadian GAAP for the eight quarters ended March 31, 2009.

	2009	2008	2008	2008	2008	2007	2007	2007
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	\$	\$	\$	\$	\$	\$	\$	\$
Product Revenue	2,279,577	1,584,474	1,371,958	845,923	1,097,486	919,053	869,738	687,989
Cost of Sales	1,928,771	1,733,303	1,660,071	832,453	1,001,329	986,724	803,009	731,981
Gross Profit (Loss)	350,806	(148,829)	(288,113)	13,470	96,157	(67,671)	66,729	(43,992)
Gross Margin on								
Product Sales	15%	-9%	-21%	2%	9%	-7%	8%	-6%
Services Revenue	432,824	650,097	99,172	151,592	75,635	63,220	152,105	311,547
Total Revenue	2,712,401	2,234,571	1,471,130	997,515	1,173,121	982,273	1,021,843	999,536
Expenses	2,326,336	3,016,756	3,294,694	3,686,024	3,656,114	4,379,794	3,110,219	4,007,605
Loss for the Period	1,731,415	2,694,449	3,684,602	3,740,494	3,544,111	4,299,946	2,892,230	3,987,766
Loss per Share –								
Basic and Diluted	0.01	0.02	0.03	0.03	0.03	0.04	0.02	0.03
Total Assets	17,950,788	19,394,907	17,823,547	21,553,341	25,187,741	17,938,351	16,473,216	7,593,556

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

- § The timing of cardiac product orders from the Company's marketing partners and distributors;
- § Additional revenues from the launch of cardiac products by Roche Diagnostics in the U.S.;
- § The timing of significant bio-defense system orders;
- § Seasonality related to the demand for Influenza A+B products; and
- § Seasonality related to the demand for RAMP West Nile Virus products as well as significant penetration of this market.

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

The quarter to quarter fluctuations in losses reported are primarily the result of the variability of gross margins on product sales resulting from changes in product mix, charges incurred due to the scale up and automation of the Company's manufacturing operations in anticipation of growth in its clinical products business, variability in expenses across all departments, the timing of recognition of contract service fees and revenues from collaborative research arrangements, fluctuations in interest income and foreign exchange gains or losses.

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### LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its operations primarily through equity and debt financings. As of March 31, 2009, the Company has raised approximately \$80 million from the sale and issuance of equity securities and convertible debt, net of issue costs. The Company also relied on a repayable leasehold improvement allowance from its landlord to fund capital expenditures related to the new facility.

As at March 31, 2009, the Company had a working capital balance of \$1,582,577, a decrease of \$1,364,211 compared to \$2,946,788 as at December 31, 2008. In the fourth quarter of 2008, the Company took measures to reduce operating expenses and its net use of cash, however depending on the ramp up of sales by the Company's partners, requirements for working capital may increase. For the three month period ended March 31, 2009, the Company relied primarily on cash on hand and cash generated from gross margin on product sale and prepayments related to contract service fees and revenues from collaborative research arrangements to fund its expenditures.

The Company's inability to generate sufficient cash flows may result in it not being able to continue as a going concern. For the three month period ended March 31, 2009, the Company incurred losses of \$1,731,415 compared to \$3,544,111 for the same period in 2008. The Company has incurred significant losses to date and as at March 31, 2009 had an accumulated deficit of \$82,888,194 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. 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 consolidated financial statements for the period 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. See "Risks and Uncertainties".

### COMMITMENTS AND CONTRACTUAL OBLIGATIONS

As at March 31, 2009, the Company had the following commitments and contractual obligations.

<b>Commitments and Obligations</b>	<b>Total</b>	<b>1 Year</b>	<b>2 – 3 Years</b>	<b>4 – 5 Years</b>	<b>&gt; 5 Years</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Equipment Operating Leases	90,720	30,240	60,480	-	-
License Fees	85,250	11,000	33,000	22,000	19,250
Repayable Leasehold Allowance	14,775,963	1,061,746	2,123,492	2,123,492	9,467,234
Facility Sublease	14,334,208	843,880	1,800,965	1,897,621	9,791,742
<b>Total</b>	<b>29,286,141</b>	<b>1,946,865</b>	<b>4,017,937</b>	<b>4,043,113</b>	<b>19,278,226</b>

### OFF BALANCE SHEET ARRANGEMENTS

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

### OUTSTANDING SHARE CAPITAL

As at March 31, 2009 there were 170,338,675 common shares issued and outstanding for a total of \$80,107,580 in share capital, 9,760,725 (of which 1,965,715 are exercisable at a weighted-average

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exercise price of \$0.68 per share) common shares issuable upon the exercise of outstanding stock options at a weighted-average exercise price of \$0.64 per share, 3,162,517 common shares reserved for future grant or issuance under the Company's stock option plan and 17,001,668 common shares issuable upon the exercise of outstanding warrants at an exercise price of \$0.20.

As at May 4, 2009 there were 170,338,675 common shares issued and outstanding, 9,755,225 (of which 2,086,536 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 \$0.64 per share, with 3,168,017 common shares reserved for future grant or issuance under the Company's stock option plan and 17,001,668 common shares issuable upon the exercise of outstanding warrants at an exercise price of \$0.20 per share.

### 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:

<b>Three Months Ended March 31,</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
<b>General and administrative</b>		
Directors' fees	<b>21,000</b>	24,000
Legal fees	<b>26,532</b>	1,858
	<b>47,532</b>	25,858

During June 2008 strategic consulting service 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. This amount remains outstanding and is included in the balance of accrued and other liabilities as at March 31, 2009.

For the three month period ended March 31, 2009, directors' fees totaling \$21,000 [2008 - \$24,000] were incurred by the Company for routine services provided by non-management members of the Board of Directors. As at March 31, 2009, \$108,000 remained outstanding and was included in the balance of accrued and other liabilities. No payments to directors' have been made in the three month period ended March 31, 2009.

The Company retains a law firm where a corporate partner is a non-management member of the Board of Directors. For the three month period ended March 31, 2009, the Company incurred legal fees from this law firm totaling \$26,532 [2008 - \$1,858]. \$26,532 remains outstanding and is included in the balance of accrued and other liabilities as at March 31, 2009.

[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:

<b>Three Months Ended March 31,</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
Product revenues	<b>47,941</b>	179,019
Contract service fees and revenues from collaborative research arrangements	<b>139,834</b>	75,635
	<b>187,775</b>	254,654

As at March 31, 2009, \$187,775 is included in trade receivables.

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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, trade receivables, other receivables, accounts payable, accrued and other liabilities 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.

As at March 31, 2009, four customers represent 77% [2008 - four customers represent 72%] of the trade receivables balance. For the three month period ended March 31, 2009, three customers represent 68% [2008 - three customers represent 46%] of total product sales. For the three month period ended March 31, 2009, two customers represent 100% [2008 - two customers represent 100%] of total service revenues.

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 and expenditures are denominated in US dollars. Significant losses may occur due to significant balances of cash and cash equivalents 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.

### CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

No change in the Company's internal control over financial reporting occurred during the three month period ended March 31, 2009 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 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 March 31, 2009 had an accumulated deficit of \$82,888,194 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 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 an ongoing need to raise additional funds to continue conducting its research and development programs and clinical trials, purchase capital

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equipment and commercialize its products. When necessary, the Company will pursue arrangements for additional capital, however there is no certainty, particularly during the current difficult financial markets, 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 or cease its operations resulting in a material adverse impact on its business and stakeholders; 3) **Economic conditions:** During the current economic downturn, there is greater risk that end-user customers of the Company's product may be slower to make purchase commitments which may negatively impact sales of the Company's new and existing products; 4) **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; 5) **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; 6) **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; 7) **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; 8) **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; 9) **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 together with its partner Roche's success in developing the point-of-care NT-proBNP market; 10) **New instrument:** In April 2008, the Company received US FDA 510(k) clearance to market a new instrument now 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 Flu A+B test to be marketed and sold by 3M and the RAMP NT-proBNP test to be marketed and sold by Roche. 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; 11) **Stock Exchange Listing:** The common shares of the Company are listed on the Toronto Stock Exchange ("TSX"). Continued listing on the TSX requires, among other things, that the Company's financial condition and the trading value of its common shares meet the TSX requirements. The TSX has announced a delisting review of the Company, which requires that the Company demonstrate that it meets the TSX requirements by early May 2009. No assurance can be given that the Company will be able to meet the TSX continued listing requirements or be able to have its securities listed on another public exchange. 12) **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; 13) **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

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

result in significant costs or in certain circumstances, the suspension or withdrawal of previously obtained clearances; 14) **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; 15) **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; 16) **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 17) **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 significant portion 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, and restricted investments being invested in variable rate securities and in the future by the Company's loans which may have fixed and variable interest rates.

Additional information relating to the Company is available by accessing the SEDAR website at [www.sedar.com](http://www.sedar.com), including information about risks, uncertainties and other factors which may cause 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 20-F.

Consolidated Financial Statements

**Response Biomedical Corporation**  
(Unaudited - Expressed in Canadian dollars)  
March 31, 2009 and 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)

	March 31, 2009	December 31, 2008
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	706,509	2,254,652
Trade receivables, net [notes 5 and 11[b]]	1,946,972	991,540
Other receivables	42,994	60,476
Inventories [note 6]	1,897,918	2,411,329
Prepaid expenses and other	236,638	256,760
<b>Total current assets</b>	<b>4,831,031</b>	<b>5,974,757</b>
Long-term prepaids	200,286	200,729
Restricted investments [note 8[iii]]	901,625	903,248
Property, plant and equipment [note 7]	11,903,044	12,201,876
Intangible assets [note 3]	114,802	114,297
	<b>17,950,788</b>	<b>19,394,907</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable [note 5]	725,979	572,576
Accrued and other liabilities [note 11[a]]	1,508,806	1,941,271
Lease inducements - current portion [note 8]	414,518	412,717
Deferred revenue - current portion [note 9]	599,151	101,405
<b>Total current liabilities</b>	<b>3,248,454</b>	<b>3,027,969</b>
Lease inducements [note 8]	9,452,495	9,558,668
Deferred revenue [note 9]	34,271	48,142
	<b>12,735,220</b>	<b>12,634,779</b>
Commitments and contingencies [note 12]		
<b>Shareholders' equity</b>		
Share capital [note 10[b]]	80,107,580	80,107,580
Contributed surplus [note 10[b]]	7,996,182	7,809,327
Deficit	(82,888,194)	(81,156,779)
<b>Total shareholders' equity</b>	<b>5,215,568</b>	<b>6,760,128</b>
	<b>17,950,788</b>	<b>19,394,907</b>

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 March 31,	2009	2008
	\$	\$
<b>REVENUE</b>		
Product sales <i>[notes 11[b] and 13]</i>	2,279,577	1,097,486
Cost of sales <i>[note 10[d]]</i>	1,928,771	1,001,329
<b>Gross profit on product sales</b>	<b>350,806</b>	96,157
Contract service fees and revenues from collaborative research arrangements <i>[notes 11[b] and 13]</i>	432,824	75,635
	<b>783,630</b>	171,792
<b>EXPENSES</b>		
Research and development <i>[note 10[d]]</i>	1,229,866	1,794,921
General and administrative <i>[notes 10[d] and 11[a]]</i>	715,775	1,247,151
Marketing and business development <i>[note 10[d]]</i>	380,695	614,042
	<b>2,326,336</b>	3,656,114
<b>OTHER EXPENSES (INCOME)</b>		
Interest expense <i>[note 8]</i>	208,196	146,507
Interest income	(7,551)	(40,159)
Foreign exchange gain	(11,936)	(46,559)
	<b>188,709</b>	59,789
<b>Loss and comprehensive loss for the period</b>	<b>(1,731,415)</b>	(3,544,111)
Deficit, beginning of period	<b>(81,156,779)</b>	(67,493,123)
<b>Deficit, end of period</b>	<b>(82,888,194)</b>	(71,037,234)
<b>Loss per common share - basic and diluted</b>	<b>\$ (0.01)</b>	<b>\$ (0.03)</b>
Weighted average number of common shares outstanding	<b>170,338,675</b>	129,986,181

*See accompanying notes*

## Response Biomedical Corporation

### CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited - Expressed in Canadian dollars)

Three Months Ended March 31,	2009	2008
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Loss for the year	(1,731,415)	(3,544,111)
Add (deduct) items not involving cash:		
Amortization of property, plant and equipment <i>[note 7]</i>	336,904	127,185
Amortization of deferred lease inducements <i>[note 8]</i>	(42,234)	(9,046)
Stock-based compensation	186,855	178,660
Amortization of deferred costs	-	2,550
Amortization of intangible assets <i>[note 3]</i>	3,510	21,933
Deferred lease inducements	-	95,784
Restricted investments	1,623	756
Changes in non-cash working capital		
Trade receivables	(955,432)	(360,644)
Other receivables	17,482	982,716
Inventories	513,411	(243,590)
Prepaid expenses and other	20,565	5,102
Accounts payable	120,168	(1,236,543)
Accrued liabilities	(432,464)	(30,313)
Deferred revenue	483,875	(24,342)
Foreign exchange (gain) loss	57,191	(49,491)
<b>Cash used in operating activities</b>	<b>(1,419,961)</b>	<b>(4,083,394)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(4,838)	(3,276,059)
Intangible assets	(4,015)	-
<b>Cash used in investing activities</b>	<b>(8,853)</b>	<b>(3,276,059)</b>
<b>FINANCING ACTIVITIES</b>		
Repayable lease inducement received	-	2,399,460
Repayment of repayable lease inducement	(62,138)	(38,767)
Proceeds from issuance of common shares, and warrants, net of share issue costs and prepaid subscriptions	-	225,890
<b>Cash (used in) provided by financing activities</b>	<b>(62,138)</b>	<b>2,586,583</b>
<b>Effect of changes in foreign currency rates on cash and cash equivalents</b>	<b>(57,191)</b>	<b>49,491</b>
<b>Decrease in cash during the period</b>	<b>(1,548,143)</b>	<b>(4,772,870)</b>
Cash and cash equivalents, beginning of period	2,254,652	8,173,961
<b>Cash and cash equivalents, end of period</b>	<b>706,509</b>	<b>3,450,582</b>
<b>Supplemental Disclosure</b>		
Interest paid in cash	208,196	146,507
Non-cash activity:		
Non-repayable leasehold improvement allowance received	-	1,098,982

See accompanying notes

## **Response Biomedical Corporation**

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

March 31, 2009 and 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, influenza A+B, environmental detection of West Nile Virus, and biodefence applications including the rapid on-site detection of anthrax, smallpox, ricin and botulinum toxin.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) 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 March 31, 2009 had an accumulated deficit of \$82,888,194 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. 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 consolidated financial statements for the period 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 unaudited consolidated interim financial statements do not include all of the information and footnotes required to be presented for annual financial statements. Accordingly, these financial statements should be read in conjunction with the annual consolidated financial statements and notes thereto for the year ended December 31, 2008.

The accompanying consolidated interim 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 March 31, 2009 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**

March 31, 2009 and 2008  
(Unaudited - Expressed in Canadian dollars)

#### **2. SIGNIFICANT ACCOUNTING POLICIES**

##### **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.

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, require the ongoing involvement of the Company and are directly linked to specific milestones are deferred and amortized into income as services are rendered. Upfront fees from collaborative research arrangements which are non-refundable, require the ongoing involvement of the Company and are not directly linked to specific milestones 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.

The Company's other significant accounting policies are disclosed in Note 2 of its audited consolidated financial statements as at and for the year ended December 31, 2008. There were no significant adoptions or changes in accounting policies since the fiscal year ended December 31, 2008 other than those noted in Note 3.

## Response Biomedical Corporation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2009 and 2008  
(Unaudited - Expressed in Canadian dollars)

#### 3. CHANGE IN ACCOUNTING POLICY AND RECENT ACCOUNTING PRONOUNCEMENT

##### CHANGE IN ACCOUNTING POLICY

###### Goodwill and Intangible Assets

Effective January 1, 2009, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) under CICA Handbook Section 3064 - "Goodwill and Intangible Assets". This section replaces existing Section 3062 "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development". The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The impact of this change in accounting policy on prior periods is as follows:

	<b>Three Month Period Ended March 31, 2008</b>	<b>Year Ended December 31, 2008</b>
	\$	\$
<b>Consolidated Balance Sheets</b>		
Decrease in property, plant and equipment	(55,511)	(114,297)
Increase in intangible assets	55,511	114,297
<b>Consolidated Statements of Loss and Cash Flows</b>		
Decrease in amortization of property, plant and equipment	(21,933)	(69,698)
Increase in amortization of intangible assets	21,933	69,698
Decrease in acquisition of property, plant and equipment	-	(59,926)
Increase in acquisition of intangible assets	-	59,926

The following table outlines the restated computer software amounts included in intangible assets:

	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net book value</b>
	\$	\$	\$
<b>March 31, 2009</b>	<b>333,728</b>	<b>218,926</b>	<b>114,802</b>
December 31, 2008	329,713	215,416	114,297
March 31, 2008	269,787	167,651	102,137

Of the \$114,802 in intangible assets as at March 31, 2009, \$105,953 is related to software not yet put in use [December 31, 2008 - \$105,112].

## **Response Biomedical Corporation**

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

March 31, 2009 and 2008  
(Unaudited - Expressed in Canadian dollars)

#### **3. CHANGE IN ACCOUNTING POLICY AND RECENT ACCOUNTING PRONOUNCEMENT (cont'd)**

##### **RECENT ACCOUNTING PRONOUNCEMENT**

###### **International Financial Reporting Standards (“IFRS”)**

In 2005, the Accounting Standards Board announced that Canadian Generally Accepted Accounting Principles are to be converged with IFRS. On February 13, 2008 the CICA confirmed that the use of IFRS is required for fiscal years beginning on or after January 1, 2011, with appropriate comparative data from the prior year.

Under IFRS, there is significantly more disclosure required, specifically for interim reporting. In addition, while IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policies that must be addressed. While the Company has commenced assessing the adoption of IFRS for its fiscal year beginning January 1, 2011, the financial impact of the transition to IFRS cannot be reasonably estimated at this time.

#### **4. 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 other stakeholders. This is accomplished by pricing products and services commensurately with the Company's strategies that attempt 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 consolidated balance sheets.

The Company has three externally imposed capital requirements which are recorded as restricted investments in the long-term asset section of the consolidated balance sheets:

- a) To secure the facility lease, the Company is maintaining a security deposit with the landlord in the form of an irrevocable letter of credit [Note 8[iii]].
- b) As security on a credit facility, the Company is required to hold a \$27,500 investment deposit with the lending institution providing the capital.
- c) As security on services provided to the Company, the Company is required to hold a \$2,500 investment deposit to the company providing these services.

The Company has not revised its capital management strategies during the three months ended March 31, 2009.

## Response Biomedical Corporation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2009 and 2008  
(Unaudited - Expressed in Canadian dollars)

#### 5. FINANCIAL INSTRUMENTS

For certain of the Company's financial instruments, including cash and cash equivalents, trade receivables, other receivables, accounts payable and accrued and other liabilities 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. Held-for-trading financial instruments are initially measured at fair value and subsequent changes in fair value are recognized in net income. Available-for-sale financial instruments are initially measured at fair value with subsequent 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. Held-to-maturity investments are initially measured at fair value and subsequently measured at amortized cost using the effective interest method with changes in amortized cost recorded to net income. Loans and receivables and other financial liabilities are initially measured at amortized cost with subsequent changes in amortized cost recorded to net income. Transaction costs (except for transaction costs related to held-for-trading financial statements which are expensed as incurred) are included in the carrying amounts of financial instruments as they are carried on the balance sheet.

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

Carrying value and fair value of financial assets and liabilities as at March 31, 2009 and December 31, 2008 are summarized as follows:

	March 31, 2009		December 31, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	\$	\$	\$	\$
Held-for-trading	<b>706,509</b>	<b>706,509</b>	2,254,652	2,254,652
Loans and receivables	<b>1,989,966</b>	<b>1,989,966</b>	1,052,016	1,052,016
Held-to-maturity	<b>901,625</b>	<b>901,625</b>	903,248	903,248
Other financial liabilities	<b>9,764,817</b>	<b>9,764,817</b>	10,106,017	10,106,017

## **Response Biomedical Corporation**

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

March 31, 2009 and 2008  
(Unaudited - Expressed in Canadian dollars)

#### **5. FINANCIAL INSTRUMENTS (cont'd)**

##### **Risks**

The Company's activities expose it to various risks including liquidity risk, credit risk and market risks such as currency risk, interest rate risk and other price risk. The Company's risk management activities are designed to mitigate possible adverse side effects on the Company's performance with a primary focus on preservation of capital. Risk management activities are managed by the finance and accounting department.

##### **Market Risk**

###### *Currency Risk*

The Company is subject to foreign exchange risk as a significant portion of its revenues and expenditures are denominated in US dollars. Significant losses may occur due to significant balances of cash and cash equivalents 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*

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 equivalents and restricted investments 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

March 31, 2009 and 2008  
(Unaudited - Expressed in Canadian dollars)

#### 5. FINANCIAL INSTRUMENTS (cont'd)

##### Credit Risk (cont'd)

As at March 31, 2009, four customers represent 77% [2008 - four customers represent 72%] of the trade receivables balance. For the three month period ended March 31, 2009, three customers represent 68% [2008 - three customers represent 46%] of total product sales. For the three month period ended March 31, 2009, two customers, represents 100% [2008 - two customers represent 100%] of total service revenues.

The Company reviews the collectibility of its accounts receivable on a regular basis and establishes an allowance for doubtful accounts based on its best estimates of any potentially uncollectible accounts. As at March 31, 2009, the balance of the Company's allowance for doubtful accounts was \$Nil [December 31, 2008 - \$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, trade accounts receivables are aged as follows at March 31, 2009:

Current	\$	1,340,926
1-30 days past due		475,693
31-60 days past due		18,510
61-90 days past due		68,987
Over 90 days past due		42,856
		<hr/>
		1,946,972
Allowance for doubtful accounts		-
	\$	<hr/>
		<b>1,946,972</b>

##### 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 March 31, 2009:

Current	\$	401,626
1-30 days past due		280,114
31-60 days past due		35,579
61-90 days past due		2,044
Over 90 days past due		6,615
		<hr/>
	\$	<b>725,979</b>

## Response Biomedical Corporation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2009 and 2008  
(Unaudited - Expressed in Canadian dollars)

#### 6. INVENTORIES

	March 31 2009 \$	December 31, 2008 \$
Raw materials	465,605	526,786
Work in process	463,407	437,284
Finished goods	968,906	1,447,259
	<b>1,897,918</b>	<b>2,411,329</b>

The carrying value of inventory as at March 31, 2009 includes a provision for lower of cost and net realizable value in the amount of \$32,985 [December 31, 2008 - \$69,598].

#### 7. PROPERTY, PLANT AND EQUIPMENT

	Cost \$	Accumulated amortization \$	Net book value \$
<b>March 31, 2009</b>			
Office furniture and equipment	938,931	204,052	734,879
Office computer equipment	235,203	147,596	87,607
Laboratory furniture and equipment	580,288	471,571	108,717
Laboratory computer equipment	413,520	371,978	41,540
Manufacturing equipment	2,114,407	398,629	1,715,778
Manufacturing molds	596,940	452,938	144,002
Leasehold improvements	9,753,466	682,946	9,070,520
	<b>14,632,754</b>	<b>2,729,709</b>	<b>11,903,044</b>
<b>December 31, 2008</b>			
Office furniture and equipment	938,931	158,145	780,786
Office computer equipment	234,207	135,636	98,571
Laboratory furniture and equipment	580,288	462,444	117,844
Laboratory computer equipment	412,798	361,825	50,973
Manufacturing equipment	2,078,052	356,517	1,721,535
Manufacturing molds	596,940	399,220	197,720
Leasehold improvements	9,753,465	519,018	9,234,447
	<b>14,594,681</b>	<b>2,392,805</b>	<b>12,201,876</b>

Amortization expense for the three month period ended March 31, 2009 amounted to \$336,904 [2008 - \$127,185].

## Response Biomedical Corporation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2009 and 2008  
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#### 7. PROPERTY, PLANT AND EQUIPMENT (cont'd)

Long-lived assets to be held and used by the Company are periodically reviewed to determine whether any events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. For long-lived assets to be held and used, the Company bases its evaluation on such impairment indicators such as the nature of the assets, the future economic benefit of the assets, any historical or future profitability measurements, as well as other external market conditions or factors that may be present. In the event that facts and circumstances indicate that the carrying amount of an asset may not be recoverable and an estimate of future undiscounted cash flows is less than the carrying amount of the asset, an impairment loss will be recognized.

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

	<b>March 31, 2009</b>	<b>December 31, 2008</b>
	\$	\$
Computer hardware purchased not yet implemented	-	31,142
Assets related to the automation of the Company's manufacturing processes	<b>1,186,321</b>	1,149,965
	<b>1,186,321</b>	<b>1,181,107</b>

## Response Biomedical Corporation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 8. LEASE INDUCEMENTS

During the year ended December 31, 2007 the Company entered into a 15 year lease agreement for a new premise [Note 12[e][ii]]. The agreement provides for lease inducements to be provided by the landlord to the Company.

	Cost \$	Accumulated reduction \$	Net book value \$
<b>March 31, 2009</b>			
Rent-Free Inducement [i]	814,164	63,322	750,842
Non-Repayable Leasehold Improvement Allowance [ii]	1,700,800	114,661	1,586,139
Repayable Leasehold Improvement Allowance [iii]	7,814,418	284,386	7,530,032
	<b>10,329,382</b>	<b>462,369</b>	<b>9,867,013</b>

<b>December 31, 2008</b>			
Rent-Free Inducement [i]	814,164	49,753	764,411
Non-Repayable Leasehold Improvement Allowance [ii]	1,700,800	85,996	1,614,804
Repayable Leasehold Improvement Allowance [iii]	7,814,418	222,248	7,592,170
	<b>10,329,382</b>	<b>357,997</b>	<b>9,971,385</b>

	March 31, 2009 \$	December 31, 2008 \$
<b>Summarized as to:</b>		
Current Portion		
Rent-Free Inducement [i]	<b>54,278</b>	54,278
Non-Repayable Leasehold Improvement Allowance [ii]	<b>114,661</b>	114,661
Repayable Leasehold Improvement Allowance [iii]	<b>245,579</b>	243,778
<b>Current Portion</b>	<b>414,518</b>	412,717
Long-Term Portion		
Rent-Free Inducement [i]	<b>696,563</b>	710,133
Non-Repayable Leasehold Improvement Allowance [ii]	<b>1,471,479</b>	1,500,144
Repayable Leasehold Improvement Allowance [iii]	<b>7,284,453</b>	7,348,391
<b>Long-Term Portion</b>	<b>9,452,495</b>	9,558,668
<b>Total</b>	<b>9,867,013</b>	9,971,385

## Response Biomedical Corporation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2009 and 2008  
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#### 8. LEASE INDUCEMENTS (cont'd)

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

- [i] 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. Amortization expense for the three month period ended March 31, 2009 amounted to \$13,569 [2008 - \$9,046].
- [ii] The Company received a non-repayable allowance for an amount of \$1.7 million for expenditures related to general upgrades to the new premise. The lease inducement benefit arising from the non-repayable leasehold improvement allowance is being amortized on a straight-line basis over the balance of the term of the operating lease beginning April 1, 2008 as a reduction to rental expense. Amortization expense for the three month period ended March 31, 2009 amounted to \$28,665 [2008 - \$Nil].
- [iii] The Company received a repayable leasehold improvement for an amount of \$7.8 million 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 \$88,500 per month including interest calculated at an interest rate negotiated between the Company and the landlord. Principal repayments for the three month period ended March 31, 2009 amounted to \$62,138 [2008 - \$38,767].

Future principal repayments due to be paid are estimated as follows:

<b>March 31,</b>	<b>\$</b>
2010	<b>245,579</b>
2011	<b>273,997</b>
2012	<b>305,704</b>
2013	<b>341,079</b>
2014	<b>380,549</b>
Thereafter	<b>5,983,124</b>
	<b>7,530,032</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 collateralized by an investment with market value of \$871,059 [2008 - \$872,757], which is presented as part of restricted investments in the long-term asset section of the consolidated balance sheets.

## Response Biomedical Corporation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 9. DEFERRED REVENUE

	March 31, 2009 \$	December 31, 2008 \$
Beginning balance:		
Product sales	149,547	206,480
Additions:		
Product sales	20,741	498,386
Contract service fees and revenues from collaborative research arrangements	797,920	466,250
	<b>968,207</b>	1,171,116
Recognition of revenue:		
Product sales	(41,796)	(555,319)
Contract service fees and revenues from collaborative research arrangements	(292,990)	(466,250)
Ending balance:		
Product sales	128,492	149,547
Contract service fees and revenues from collaborative research arrangements	504,930	-
	<b>633,422</b>	149,547
<b>Summarized as to:</b>		
Current Portion		
Product sales	94,221	101,405
Contract service fees and revenues from collaborative research arrangements	504,930	-
<b>Current Portion</b>	<b>599,151</b>	101,405
Long-Term Portion		
Product sales	34,271	48,142
<b>Long-Term Portion</b>	<b>34,271</b>	48,142
<b>Total</b>	<b>633,422</b>	149,547

## Response Biomedical Corporation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 10. SHARE CAPITAL AND CONTRIBUTED SURPLUS

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

[b] **Issued**

	Issued and Outstanding Number	Amount	Contributed Surplus
	#	\$	\$
<b>Balance, December 31, 2007</b>	129,977,631	71,393,556	7,172,788
Issued for cash:			
Exercise of warrants [ii]	6,285,239	3,896,848	-
Exercise of stock options	72,470	37,321	-
Private placement, net of issue costs and fair value of warrants [i]	34,003,335	3,716,620	962,628
Issued for non-cash consideration:			
Value of warrants exercised [ii]	-	1,039,578	(1,039,578)
Stock-based compensation related to stock options exercised	-	23,657	(23,657)
Stock-based compensation	-	-	737,146
<b>Balance, December 31, 2008</b>	<b>170,338,675</b>	<b>80,107,580</b>	<b>7,809,327</b>
Stock-based compensation [note 10 [d]]	-	-	186,855
<b>Balance, March 31, 2009</b>	<b>170,338,675</b>	<b>80,107,580</b>	<b>7,996,182</b>

[i] The Company closed a private placement on October 28, 2008 and October 31, 2008 consisting of 31,084,435 and 2,918,900 units, respectively, at a price of \$0.15 per share, for total gross proceeds of \$5,100,500. Each unit is comprised of 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 \$0.20 per share for a period of 36 months from the closing date.

In connection with the financings, the Company paid cash commissions of \$291,386 and legal and professional fees of \$129,866 for total net proceeds of \$4,679,248, of which \$3,716,620 was allocated to the common shares issued and \$962,628 was allocated to contributed surplus to reflect the fair value of the common share purchase warrants.

The fair value of the 17,001,668 share purchase warrants issued was determined using the Black-Scholes option pricing model using the following assumptions:

	October 28, 2008	October 31, 2008
	warrants	warrants
Dividend yield	0%	0%
Expected volatility	71%	71%
Risk-free interest rate	2.18%	2.11%
Expected life in years	3.00	3.00

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

[i] **Issued (cont'd)**

Accordingly, \$932,533 of the proceeds, less \$77,018 in issue costs, was allocated as the fair value of the October 28, 2008 warrants, and \$116,756 less \$9,642 in issue costs, was allocated as the fair value of the October 31, 2008 warrants for a total aggregate value of \$962,628 which was recorded in contributed surplus in the consolidated balance sheets.

[ii] During the year ended December 31, 2008, 6,285,239 share purchase warrants were exercised for proceeds of \$3,896,848.

[c] **Stock option plan**

At the Annual General Meeting held June 3, 2008, the Company's shareholder's approved a new stock option plan ("2008 Plan") to be compliant with the TSX ("Toronto Stock Exchange") 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, 3,162,517 stock options are available for grant at March 31, 2009.

At March 31, 2009, the following stock options were outstanding:

Range of exercise price \$	Options outstanding March 31, 2009			Options exercisable March 31, 2009		
	Number of shares under option #	Weighted average contractual life (years)	Weighted average exercise price \$	Number of options currently exercisable #	Weighted average exercise price \$	
0.12 – 0.19	1,962,850	4.68	0.12	-	-	
0.30 – 0.39	13,000	1.55	0.33	13,000	0.33	
0.40 – 0.49	50,387	2.11	0.48	23,425	0.46	
0.50 – 0.59	2,446,500	2.02	0.57	1,182,326	0.57	
0.60 – 0.69	1,911,375	3.06	0.67	277,376	0.66	
0.70 – 0.79	102,400	1.82	0.75	66,251	0.76	
0.80 – 0.89	1,056,900	3.31	0.88	123,690	0.88	
0.90 – 0.99	75,000	2.12	0.91	18,750	0.91	
1.00 – 1.10	2,142,313	3.41	1.06	260,897	1.06	
<b>0.12 – 1.10</b>	<b>9,760,725</b>	<b>3.20</b>	<b>0.64</b>	<b>1,965,715</b>	<b>0.68</b>	

The options expire at various dates from April 12, 2009 to December 2, 2013.

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 10. 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
	#	\$
<b>Balance, December 31, 2007</b>	10,578,375	0.75
Options granted	2,432,000	0.23
Options forfeited - vested	(992,110)	0.72
Options forfeited - unvested	(1,065,450)	0.67
Options expired	(147,750)	0.56
Options exercised	(72,470)	0.51
<b>Balance, December 31, 2008</b>	10,732,595	0.65
Options granted	-	-
Options forfeited - vested	(640,770)	0.68
Options forfeited - unvested	-	-
Options expired	(331,100)	0.71
Options exercised	-	-
<b>Balance, March 31, 2009</b>	<b>9,760,725</b>	<b>0.68</b>

The exercise price equaled the closing trading price of the common shares on the date preceding the date of grant for all options issued during the year ended December 31, 2008.

##### [d] Stock-based compensation

For the three month period ended March 31, 2009, the Company recognized total stock-based compensation of \$186,855 [2008 - \$178,660]. For the three month period ended March 31, 2009, the Company recognized compensation expense of \$186,855 [2008 - \$175,272] as a result of stock options granted to officers, directors and employees, and \$Nil [2008 - \$3,388] as a result of stock options granted to consultants, with a corresponding credit to contributed surplus.

The Company did not grant any options in the three month periods ended March 31, 2009 and March 31, 2008.

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

Three Months Ended March 31,	2009	2008
	\$	\$
Cost of sales	13,234	11,481
Research and development	26,409	21,623
Marketing and business development	18,340	17,943
General and administrative	128,872	127,613
	<b>186,855</b>	<b>178,660</b>

## Response Biomedical Corporation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 10. 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 March 31, 2009, 577,500 common shares have been released from escrow leaving a balance of escrow shares of 247,500.

##### [f] Common share purchase warrants

At March 31, 2009, the following common share purchase warrants are outstanding:

<b>Issue Date</b>	<b>Number of common shares issuable</b>	<b>Exercise price \$</b>	<b>Expiry date</b>
October 28, 2008	15,542,218	\$0.20	October 28, 2011
October 31, 2008	1,459,450	\$0.20	October 31, 2011
	<b>17,001,668</b>	<b>\$0.20</b>	

Common share purchase warrant transactions are summarized as follows:

	<b>Number of warrants #</b>	<b>Weighted average exercise price \$</b>
<b>Balance, December 31, 2007</b>	12,094,534	0.62
Warrants issued	17,001,668	0.20
Warrants exercised	(6,285,239)	0.62
Warrants expired	(5,809,295)	0.62
<b>Balance, December 31, 2008</b>	17,001,668	0.20
No activity	-	-
<b>Balance, March 31, 2009</b>	17,001,668	0.20

## Response Biomedical Corporation

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 11. 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:

<b>Three Months Ended March 31,</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
<b>General and administrative</b>		
Directors' fees	<b>21,000</b>	24,000
Legal fees	<b>26,532</b>	1,858
	<b>47,532</b>	25,858

During June 2008 strategic consulting service 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. This amount remains outstanding and is included in the balance of accrued and other liabilities as at March 31, 2009.

For the three month period ended March 31, 2009, directors' fees totaling \$21,000 [2008 - \$24,000] were incurred by the Company for routine services provided by non-management members of the Board of Directors. As at March 31, 2009, \$108,000 remained outstanding and was included in the balance of accrued and other liabilities. No payments to directors' have been made in the three month period ended March 31, 2009.

The Company retains a law firm where a corporate partner is a non-management member of the Board of Directors. For the three month period ended March 31, 2009, the Company incurred legal fees from this law firm totaling \$26,532 [2008 - \$1,858]. \$26,532 remains outstanding and is included in the balance of accrued and other liabilities as at March 31, 2009.

[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:

<b>Three Months Ended March 31,</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
Product revenues	<b>47,941</b>	179,019
Contract service fees and revenues from collaborative research arrangements	<b>139,834</b>	75,635
	<b>187,775</b>	254,654

As at March 31, 2009, \$187,775 is included in trade receivables.

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

## **Response Biomedical Corporation**

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

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#### **12. 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. For the three month period ended March 31, 2009, the Company incurred an expense of \$2,750 [2008 - \$3,500] for royalty and license fees.

##### **[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 indemnifications 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 it 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 consolidated financial statements with respect to these indemnification obligations.

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

##### [d] Supply agreement

The Company entered into a supply agreement, 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 month period ended March 31, 2009, the Company incurred an expense of \$41,412 [2008 - \$12,303] 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 was required to pay the sub-landlord a total gross monthly rent of approximately \$79,000 including maintenance and utilities. Rent expense and associated fees related to the property sublease agreement for the three month period ended March 31, 2009 was \$Nil [2008 - \$237,558].

[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. 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 8[iii]].

For the three month period ended March 31, 2009, \$376,958 [2008 - \$312,685] 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 8[i]] and non-repayable leasehold improvement allowance [Note 8[ii]].

[iii] The Company entered into a number of operating leases for administrative equipment.

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

<b>March 31,</b>	<b>Premise*</b>	<b>Equipment</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
2010	1,905,626	30,240	1,935,866
2011	1,950,488	30,240	1,980,728
2012	1,973,969	30,240	2,004,209
2013	1,998,128	-	1,998,128
2014	2,022,985	-	2,022,985
Thereafter	19,258,976	-	19,258,976
	<b>29,110,172</b>	<b>90,720</b>	<b>29,200,892</b>

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

#### 13. 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, Europe, Asia and Canada. Expenses are primarily incurred from purchases made from suppliers in Canada and the United States.

For the year ended March 31, 2009, 100% of the Company's contract service fees and revenues from collaborative research arrangements were generated from two customers [2008 – 100% from one customer].

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

<b>Three Months Ended March 31,</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
United States	139,834	75,635
Europe	292,990	-
<b>Total</b>	<b>432,824</b>	<b>75,635</b>

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

For the year ended March 31, 2009, \$1,544,565 in product sales were generated from three customers [2008 - \$501,154 from three customers].

Product sales by customer location were as follows:

<b>Three Months Ended March 31,</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
United States	<b>1,300,659</b>	454,785
Asia	<b>623,277</b>	346,011
Canada	<b>231,020</b>	189,885
Europe	<b>122,210</b>	106,805
Other	<b>2,411</b>	-
<b>Total</b>	<b>2,279,577</b>	1,097,486

Product sales by type of product were as follows:

<b>Three Months Ended March 31,</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
Clinical products	<b>1,742,707</b>	769,145
Vector products (West Nile Virus)	<b>428,038</b>	131,665
Bio-defense products	<b>108,832</b>	196,676
<b>Total</b>	<b>2,279,577</b>	1,097,486

#### 14. COMPARATIVE FIGURES

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

#### 15. SUBSEQUENT EVENTS

In April 2009, the Company announced that it filed a U.S. Food and Drug Administration 510(k) submission seeking clearance to market its Respiratory Syncytial Virus (RSV) test. The test, manufactured by Response Biomedical, will run on the RAMP® diagnostic platform and will be marketed and sold exclusively by 3M Health Care as the 3M™ Rapid Detection RSV Test.