

gaining momentum



Response Biomedical Corporation
2011 3rd Quarter Report

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

This management discussion and analysis ("MD&A") is as of November 14, 2011. We have prepared this MD&A with reference to National Instrument 51-102 "Continuous Disclosure Obligations" of the Canadian Securities Administrators. Under the U.S./Canada Multijurisdictional Disclosure System, we are permitted to prepare this MD&A in accordance with the disclosure requirements of Canada, which are different from those of the United States. 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 nine month periods ended September 30, 2011 and 2010 and the restated audited consolidated financial statements as at and for each of years in the three year period ended December 31, 2010, including the related notes therein. The unaudited consolidated financial statements are prepared in accordance with generally accepted accounting principles used in the United States of America ("U.S. GAAP").

This discussion includes forward-looking statements made by management that involve uncertainties and risks, including those discussed herein and as described in the "Risk Factors" section of the Annual Information Form. When used in this document, the words "may", "would", "could", "will", "intend", "plan", "propose", "anticipate", "believe", "forecast", "estimate", and "expect" and similar expressions as they relate to the Company or its management, are intended to identify forward-looking statements. Such forward-looking statements should be given careful consideration and undue reliance should not be placed on these statements. The Company bases its forward-looking statements on information currently available to it, and assumes no obligation to update them, except as required by law. The actual results may differ materially from those contained in any forward-looking statements.

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 thirteen tests available for clinical and environmental testing applications and the Company has plans to commercialize additional tests in the future.

The Company has strategically added sales and marketing partners and distributors worldwide and continues to invest in identifying and pursuing further suitable opportunities to expand its network. In China, the Company's cardiovascular products are distributed by O&D Biotech Co., Ltd China ("O&D") and Guangzhou Wondfo Biotech Co., Ltd. ("Wondfo"). The Company has sales and marketing partnerships with 3M Company ("3M") for its infectious disease products in the U.S. and Shionogi & Co., Ltd. ("Shionogi") to market its B-type natriuretic peptide ("BNP") test in Japan.

In 2010, the Company focused on restructuring the operations, capitalizing on efficiencies and cutting costs while attempting to maintain a steady flow of cardiac product revenue. Further restructuring was implemented during 2011. The benefits of the 2010 cost cutting measures are being realized in the first nine months of 2011. The benefits of the 2011 restructuring, including the changes implemented in the three month period ending September 30, 2011, will be realized

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in future quarters. Revenues may vary in the future due to fluctuations in the sales mix and timing of orders based on distributor demand.

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

Total revenue for the three month period ended September 30, 2011 increased 1% to \$1,571,375 compared to \$1,553,001 in 2010. Total revenue for the nine month period ended September 30, 2011 increased 26% to \$6,740,682 compared to \$5,357,993 in 2010.

Clinical products revenue for the three month period ended September 30, 2011 increased 14% to \$1,429,981 compared to \$1,249,385 in 2010. Clinical products revenue for the nine month period ended September 30, 2011 increased 12% to \$4,995,322 compared to \$4,449,469 in 2010.

Non-clinical products revenue (Biodefense and Vector products), for the three month period ended September 30, 2011 decreased 54% to \$133,860 compared to \$292,845 in 2010. Non-clinical products revenue for the nine month period ended September 30, 2011 increased 111% to \$1,282,598 compared to \$607,719 in 2010.

Contract service fees and revenue from collaborative research arrangements for the three month period ended September 30, 2011 decreased 30% to \$7,534 compared to \$10,771 for 2010. Contract service fees and revenue from collaborative research arrangements for the nine month period ended September 30, 2011 increased 54% to \$462,762 compared to \$300,805 for 2010.

As at September 30, 2011, the Company had \$1,789,925 in cash and cash equivalents, a decrease of \$2,540,192 compared to \$4,330,117 as at December 31, 2010. As at September 30, 2011, the Company had a working capital balance of \$2,448,992 a decrease of \$3,753,056 compared to \$6,202,048 as at December 31, 2010.

2011 Key Events:

- ❑ On January 4, 2011, the Company announced that it entered into an exclusive distribution agreement with Cremascoli & Iris, s.r.l. of Milan, Italy to distribute the full line of RAMP® cardiac products in Italy.
- ❑ On March 11, 2011, the Company announced the departure of Livleen Kaler, Vice President, Finance and Administration and Chief Financial Officer.
- ❑ On April 28, 2011, the Company announced that it has received product registration from China's State Food & Drug Administration (SFDA) to sell the RAMP® 200 Reader in the Chinese market. One of the Company's distributors in China, O&D Biotech China Co. Ltd., assisted in the registration application.
- ❑ On May 4, 2011, the Company announced that it has entered into an exclusive distribution agreement with Fisher Scientific Company of Ottawa, Ontario, Canada to distribute the full line of RAMP® cardiac products in Canada.
- ❑ On May 27, 2011, the FDA informed the Company that the NTproBNP assay does not have 510 (k) clearance on the RAMP® 200 reader. Subsequently, the Company received

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notification from its U.S. distributor that they have issued a stop shipment on all RAMP® 200 branded products until 510(k) clearance had been received by the FDA.

- ❑ On June 13, 2011, the Company announced that it has received notification from the U.S. Food and Drug Administration (FDA) that its NTproBNP Assay did not meet the criteria to obtain a waiver under the Clinical Laboratory Improvement Amendments of 1988 (CLIA). The fact that the Company did not obtain the waiver for its NTproBNP Assay does not affect its current global distribution channels. The Company did not forecast any sales with the assumption that its NTproBNP Assay would be CLIA waived.
- ❑ On September 2, 2011, the Company announced that they have received notification from Roche Diagnostics that they have terminated, effective September 30, 2011, the sales and distribution agreement between Roche and the Company dated June 25, 2008. Roche Diagnostics terminated the agreement because the Company has not obtained the necessary approvals from the U.S. Food and Drug Administration (FDA) to permit Roche Diagnostics to market the Company's cardiovascular POC tests in the United States using the RAMP® 200 Reader. Following the termination the Company has been and is now marketing and selling the cardiovascular panel on the RAMP® Reader directly to customers in the U.S., as the Company has the necessary approvals from FDA to do so. The termination did not have a material financial effect during the three months ended September 30, 2011 and the Company does not expect the termination to have a material financial effect for the remainder of the fiscal year.
- ❑ On September 30, 2011, the Company announced that, as a result of an ongoing internal review of prior transactions and previous financial disclosure and following consultation with its external auditors, it has determined that it is appropriate to re-state and re-file audited financial statements for the year ended December 31, 2010 and unaudited financial statements for the first two quarters of 2011.
- ❑ On October 20, 2011, the Company announced the appointment Dr. David Wang of Orbimed Asia to the Board of Directors of Response Biomedical, the resignation of Dr. Jonathan Wang as a Director of Response Biomedical, and the promotion of two executives to leadership positions in the Company.
- ❑ On November 9, 2011, the Company announced it had restated its annual audited consolidated financial statements for the year ended December 31, 2010 and its interim unaudited consolidated financial statements for the periods ended March 31, 2011 and June 30, 2011.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our unaudited interim consolidated financial statements are prepared in accordance with U.S. GAAP. These accounting principles require us to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting periods. We believe that the estimates and assumptions upon which we rely are reasonable based upon information available at the time that these estimates and assumptions were made. Actual results may differ from these estimates under different assumptions or conditions. Significant areas requiring management estimates include stock-based

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compensation expense, the estimated life of property, plant and equipment, recoverability of long-lived assets and provisions for inventory obsolescence.

The Company's significant accounting policies are disclosed in Note 2 to the restated audited consolidated financial statements as at and for the years ended December 31, 2010 and 2009. The Company believes that the significant accounting policies disclosed in its restated 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 2010 restated audited consolidated financial statements, is available by accessing the SEDAR website at www.sedar.com.

Changes in Significant Accounting Policies

Prior to January 1, 2011, the Company prepared the consolidated financial statements in conformity with Canadian GAAP and provided a supplemental reconciliation to U.S. GAAP. Effective January 1, 2011, the Company adopted U.S. GAAP as the reporting standard for the consolidated financial statements. The consolidated interim unaudited financial statements for the three and nine month period ended September 30, 2011 including related notes, have therefore been prepared in accordance with U.S. GAAP. All comparative financial information contained in the consolidated interim financial statements has been recast to reflect the results as if they had been historically reported in accordance with U.S. GAAP. These adjustments resulted in an increase in deficit of \$736,558, a decrease in share capital of \$69,288, and an increase in contributed surplus of \$805,846, at January 1, 2011. These differences are outlined in our restated annual audited consolidated financial statements for the year ended December 31, 2010 in Note 18.

Recent Accounting Pronouncements

Effective December 31, 2010, the Company adopted the provisions of FASB issued SFAS No. 168, The FASB Accounting Standards Codification ("Codification") and the Hierarchy of Generally Accepted Accounting Principles ("SFAS 168") - a replacement of FASB Statement No. 162, The Hierarchy of Generally Accepted Accounting Principles. Under the provisions of SFAS 168, the Codification will become the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. The rules and interpretive releases of the SEC under federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of SFAS 168, the Codification superseded all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. The adoption of this standard did not have a material effect on the Company's consolidated financial statements.

In the first quarter of 2011, the Company adopted Accounting Standards Codification (ASC) Subtopic 605-25, Revenue Recognition - Multiple-Element Arrangements (ASC Subtopic 605-25). ASC Subtopic 605-25 provides principles for allocation of consideration among multiple-elements in an arrangement, allowing more flexibility in identifying and accounting for revenue from separate deliverables under an arrangement. ASC Subtopic 605-25 introduces an estimated selling price method for allocating revenue to the elements of a bundled arrangement if vendor-specific objective evidence or third-party evidence of selling price is not available, and significantly expands related disclosure requirements. This standard is effective on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after

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June 15, 2010. The adoption of ASC Subtopic 605-25 did not have a material effect on our consolidated financial statements.

In the first quarter of 2011, the Company adopted Accounting Standards Codification (ASC) Subtopic 605-28, Milestone Method of Revenue Recognition (ASC Subtopic 605-28). This standard provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for certain research and development transactions. Under this new standard, a company can recognize as revenue consideration that is contingent upon achievement of a milestone in the period in which it is achieved, only if the milestone meets all criteria to be considered substantive. This standard is effective for periods beginning after January 1, 2011. The adoption of this standard did not have a material effect on the Company's consolidated financial statements.

In the second quarter of 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. ASU 2011-05 eliminates the option to present other comprehensive income in the statement of changes in equity and provides the option to present the components of net income and comprehensive income in either one combined financial statement or two consecutive financial statements. We currently present the components of comprehensive income in our Consolidated Statements of loss, comprehensive loss and deficit. The adoption of ASU 2011-05 did not affect our operating results, cash flows or financial position.

RESULTS OF OPERATIONS

For the three and nine month periods ended September 30, 2011 and 2010:

Revenue and Cost of Sales

Total revenue for the three month period ended September 30, 2011 increased 1% to \$1,571,375 compared to \$1,553,001 in 2010. Total revenue for the nine month period ended September 30, 2011 increased 26% to \$6,740,682 compared to \$5,357,993 in 2010.

Revenues from product sales for the three month period ended September 30, 2011 increased 1% to \$1,563,841 compared to \$1,542,230 in 2010. Revenues from product sales for the nine month period ended September 30, 2011 increased 24% to \$6,277,920 compared to \$5,057,188 in 2010.

Clinical products revenue for the three month period ended September 30, 2011 increased 14% to \$1,429,981 compared to \$1,249,385 in 2010. Clinical products revenue for the nine month period ended September 30, 2011 increased 12% to \$4,995,322 compared to \$4,449,469 in 2010. A significant portion of the increase in revenue came from sales to O&D Biotech Co., a distributor who is making strong progress in the Chinese market with RAMP® products. Underperformance by domestic channel partners has been more than offset by our partners in China and other international territories. Sales of clinical products are variable based on the timing of orders from distributors and marketing partners.

As noted in our "Key Events" above, on September 2, 2011, the Company received notification from Roche Diagnostics that they have terminated, effective September 30, 2011, the sales and distribution agreement between Roche and the Company dated June 25, 2008. Roche Diagnostics terminated the agreement because the Company has not obtained the necessary approvals from the U.S. Food and Drug Administration (FDA) to permit Roche Diagnostics to

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market the Company's cardiovascular tests for use in point-of-care settings in the United States using the RAMP® 200 Reader.

Following the termination the Company has been and is now marketing and selling the cardiovascular panel on the RAMP® Reader directly to customers in the U.S., as the Company has the necessary approvals from FDA to do so. The termination did not have a material financial effect during the three months ended September 30, 2011 and the Company does not expect the termination to have a material financial effect for the remainder of the fiscal year.

Non-clinical products revenue (Biodefense and Vector products), for the three month period ended September 30, 2011 decreased 54% to \$133,860 compared to \$292,845 in 2010. Non-clinical products revenue for the nine month period ended September 30, 2011 increased 111% to \$1,282,598 compared to \$607,719 in 2010. The increase is primarily due to a significant sale to one customer during the period. Sales of Vector products are driven by a combination of weather patterns, seasonality and timing of orders from distributors that cause period over period fluctuations. In the future, the Company expects the sale of non-clinical products to continue to fluctuate at varying levels.

Contract service fees and revenue from collaborative research arrangements for the three month period ended September 30, 2011 decreased 30% to \$7,534 compared to \$10,771 for 2010. Contract service fees and revenue from collaborative research arrangements for the nine month period ended September 30, 2011 increased 54% to \$462,762 compared to \$300,805 for 2010. The change in the nine month period ended September 30, 2011 is primarily due to the termination of a project agreement as further development was suspended pending changes to requirements by the U.S. FDA. Upon termination, the Company recognized the remaining revenue under the contract to offset costs incurred in accordance with the agreement. Variability in contract service fees is due to the timing and performance of services required to recognize service revenue from the Company's collaborations. In the future, the Company expects decreases in contract service revenue as a result of the termination of projects during the period and the fact no projects are currently ongoing.

Cost of sales for the three month period ended September 30, 2011 decreased 19% to \$1,284,556 compared to \$1,592,502 in 2010. Cost of sales for the nine month period ended September 30, 2011 increased 6% to \$5,065,648 compared to \$4,800,381 in 2010. During the same periods, product sales increased 1% and 24% respectively. Cost of product sales includes direct manufacturing labour costs, direct materials costs, royalties, inventory provisions for obsolescence and scrap, allocated overhead including depreciation and stock-based compensation related to the granting of stock options to employees engaged in manufacturing activities.

Overall gross margin from product sales for the three month period ended September 30, 2011 is 18% as compared to negative 3% in 2010. Overall gross margin from product sales for the nine month period ended September 30, 2011 is 19% as compared to 5% in 2010. The increase in the margin is due to increases in sales volumes which absorb more manufacturing overhead, continued labour cost improvements, changes in sales mix to higher gross margin items, offset by increasing material and overhead costs. The level of gross margins realized in the future will depend on product pricing, sales volume, sales mix, and manufacturing cost efficiencies.

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Expenses

Overall, expenses in the three months ended September 30, 2011, have increased 5% to \$2,426,470 from \$2,307,546 in the same period in 2010. Expenses in the nine months ended September 30, 2011, have decreased 20% to \$5,745,987 from \$7,178,746 in the same period in 2010. The increase in expenses in the three months ended September 30, 2011 is primarily due to estimated severance expenses that have been accrued arising from the termination of several former executives. The overall decrease in expenses in 2011 over the same periods in 2010 is primarily due to the strategic realignment of resources and company-wide cost cutting measures that began in 2010.

Research and development expenditures for the three month period ended September 30, 2011 decreased 36% to \$802,502 compared to \$1,261,440 in 2010. Research and development expenditures for the nine month period ended September 30, 2011 decreased 46% to \$2,093,553 compared to \$3,903,313 in 2010. The decrease in research and development expenses in the three month period arises primarily from a reduction in payroll and associated costs of \$303,000. In addition there was an overall decrease in the costs of development projects of \$92,000, \$31,000 in legal fees incurred for work on patents, and \$32,000 in other administrative costs all attributed to fewer projects being undertaken. In the future, the Company expects fluctuations in research and development expenditures as a result of the size and number of projects in development and the timing of clinical trial activities.

General and administrative expenditures for the three month period ended September 30, 2011 increased 111% to \$1,399,778 from \$663,484 in 2010. General and administrative expenditures for the nine month period ended September 30, 2011 increased 28% to \$2,855,066 from \$2,229,488 in 2010. The increase in general and administrative costs in the three month period arises primarily from an increase in payroll expenses of \$440,000 due to the \$576,000 severance expenses offset by general headcount decreases resulting in a decrease of \$136,000, \$102,000 in director services due to a significant increase in the duties performed, \$79,000 increase in recruiting costs, \$77,000 in increased legal fees as a result of the restatements for the annual and quarterly financial statements, and \$31,000 increase in bad debt expense as a result of an account being deemed uncollectible during the period. The Company expects general and administrative expenses fluctuate in the future dependent on the activity of the Company.

Marketing and business development expenditures for the three month period ended September 30, 2011 decreased 41% to \$224,190 compared to \$382,622 in 2010. Marketing and business development expenditures for the nine month period ended September 30, 2011 decreased 24% to \$797,368 compared to \$1,045,945 in 2010. The decrease in sales and marketing costs arises primarily from decreases in payroll and associated costs of \$111,000, and a decrease of \$28,000 of amortization expense. In the future, the Company expects fluctuations in sales and marketing expenditures as a result of targeted business development activities to expand sales and marketing opportunities in current and new territories.

Other Income/Expenses

For the three month period ended September 30, 2011, interest expense amounted to \$190,085 compared to \$201,889 in 2010. For the nine month period ended September 30, 2011, interest expense amounted to \$589,046 compared to \$616,719 in 2010. This interest expense is primarily

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related to the interest portion of the repayable leasehold improvement allowance on the facility lease agreement.

During the three month period ended September 30, 2011, the company earned interest income of \$3,657 compared to \$4,880 in 2010. During the nine month period ended September 30, 2011, the company earned interest income of \$14,047 compared to \$6,380 in 2010. The interest earned is primarily from the cash equivalents and restricted funds invested in secured investment vehicles. The variation in interest earned is due to fluctuations in the interest rate, the amount of and terms of investments from time to time.

During the three month period ended September 30, 2011, the company realized a foreign exchange gain of \$125,307 compared to a foreign exchange loss of \$37,730 in 2010. During the nine month period ended September 30, 2011, the company realized a foreign exchange gain of \$59,233 compared to a foreign exchange loss of \$42,744 in 2010. Foreign exchange gains and losses are largely due to U.S. dollar balances of cash and cash equivalents, accounts receivable and accounts payable affected by the fluctuations in the value of the U.S. dollar as compared to the Canadian dollar. The Company uses the exchange rate posted on the Bank of Canada website for the last business day of each month. The exchange rate as at September 30, 2011 was \$0.9686 U.S. per CDN dollar [September 30, 2010 - \$0.9718, December 31, 2010 - \$1.005].

Loss

For the three month period ended September 30, 2011, the Company reported a loss of \$2,200,772 or \$0.06 per share, compared to a loss of \$2,581,786 or \$0.07 per share in 2010. For the nine month period ended September 30, 2011, the Company reported a loss of \$4,586,719 or \$0.12 per share, compared to a loss of \$7,274,217 or \$0.25 per share in 2010. The decrease in the loss for the three months ended September 30, 2011 is attributed to the increase in product sales, improved gross margins during the period, and lower operating costs across all departments, offset by severance costs.

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SUMMARY OF QUARTERLY RESULTS

The table below sets forth selected data derived from the Company's audited and unaudited consolidated financial statements prepared in accordance with U.S. GAAP for the eight quarters ended September 30, 2011.

	2011 Q3 \$	2011 Q2 \$	2011 Q1 \$	2010 Q4 \$	2010 Q3 \$	2010 Q2 \$	2010 Q1 \$	2009 Q4 \$
		Restated	Restated	Restated	Restated	Restated	Restated	
Product Revenue	1,563,841	2,691,623	2,022,456	1,699,754	1,542,230	2,112,424	1,402,534	1,856,901
Cost of Sales	1,284,556	1,783,205	1,997,887	2,297,157	1,592,502	1,919,838	1,288,041	1,905,877
Gross Profit (Loss)	279,285	908,418	24,569	(597,403)	(50,272)	192,586	114,493	(48,976)
Gross Margin on Product Sales	18%	34%	1%	(35%)	(3%)	9%	8%	(3%)
Services Revenue	7,534	7,124	448,104	55,261	10,771	143,089	146,945	594,029
Total Revenue	1,571,375	2,698,747	2,470,560	1,755,015	1,553,001	2,255,513	1,549,479	2,450,930
Expenses	2,426,470	1,520,716	1,798,801	2,037,510	2,307,546	2,123,585	2,747,614	3,050,398
Loss for the Period	2,200,772	797,129	1,588,818	2,807,694	2,581,786	1,963,601	2,728,830	2,735,908
Loss per Share – Basic and Diluted	0.06	0.02	0.04	0.09	0.06	0.08	0.11	0.12
Total Assets	15,936,113	16,623,799	17,545,418	19,523,931	22,340,511	18,007,570	19,292,983	21,464,196

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

- Increases or decreases in sales volumes which are a primary reason for increases or decreases in gross margins and losses;
- The timing of clinical product orders from the Company's marketing partners and distributors including the timing of periodic large cardiac orders from O&D, our largest distributor;
- Launch of products by new distributors;
- Regulatory approvals enabling product launches or regulatory actions constraining selling activity in a territory;
- Seasonality related to the demand for RAMP® West Nile Virus products; and
- Occasional sales of biodefense products such as a large sale that occurred during the second quarter of 2011.

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

The quarter to quarter fluctuations in profits or losses reported are primarily the result of the variability of the following:

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- Product sales due to the timing of orders by the Company's main distributors;
- Service revenue due to the timing of recognition of contract service fees and revenues from collaborative research arrangements;
- Gross margins on product sales due to levels of sales volumes, changes in product mix, and charges incurred due to the scale up and automation of the Company's manufacturing operations;
- Operating expense changes including severance payments due to changes in staffing levels across departments associated with cost-cutting measures undertaken by management; and
- Other expenses due to fluctuations in interest income and foreign exchange gains and losses.

LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its operations primarily through equity financings. As of September 30, 2011, the Company has raised approximately \$97 million from the sale and issuance of equity securities, net of issue costs.

As at September 30, 2011, the Company had a working capital balance of \$2,448,992, a decrease of \$3,753,056 compared to \$6,202,048 as at December 31, 2010. For the three months ended September 30, 2011, the Company relied primarily on proceeds from the issuance of common shares through a private placement in 2010, cash on hand and cash generated from gross margin on product sales and repayments related to contract service fees and revenues from collaborative research arrangements to fund its expenditures.

For the three and nine months ended September 30, 2011, the Company reported a loss of \$2,200,772 and \$4,586,719 compared to a loss of \$2,581,786 and \$7,274,217 in 2010. The Company has sustained continuing losses since its formation and at September 30, 2011, had a deficit of \$106,105,498 and for the three and nine months ended September 30, 2011 incurred negative cash flows from operations of \$656,942 and \$2,318,837 compared to \$2,582,271 and \$6,960,577 in 2010. Even though there is an improvement in the negative cash flow, these conditions raise substantial doubt 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 equity financings. Management will continue, as appropriate, to seek other sources of financing on favorable terms; however, there are no assurances that any such financing can be obtained on favorable terms, if at all. In view of these conditions, the ability of the Company to continue as a going concern is dependent 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 years 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 September 30, 2011, the Company had the following commitments and contractual obligations:

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Commitments and Obligations	Total \$	1 Year \$	2 – 3 Years \$	4 – 5 Years \$	> 5 Years \$
Equipment Operating Leases	237,866	51,898	103,796	82,172	-
Repayable Leasehold Allowance	12,033,119	1,061,746	2,123,491	2,123,492	6,724,390
Facility Lease	13,261,224	942,707	1,998,255	2,162,520	8,157,742
Subtotal Premises & Equipment	25,532,209	2,056,351	4,225,542	4,368,184	14,882,132
License Fees	104,248	31,777	47,971	22,000	2,500
Purchase Commitments	785,574	82,464	311,714	391,396	-
Total Commitments and Obligations	26,422,031	2,170,592	4,585,227	4,781,580	14,884,632

As at September 30, 2010, 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	76,360	53,680	22,680	-	-
Repayable Leasehold Allowance	13,094,865	1,061,745	2,123,492	2,123,492	7,786,136
Facility Lease	14,168,815	907,591	1,922,372	2,078,210	9,260,642
Subtotal Premises & Equipment	27,340,040	2,023,016	4,068,544	4,201,702	17,046,778
License Fees	133,750	31,000	73,000	27,000	2,750
Purchase Commitments	817,035	79,738	259,549	378,461	99,287
Total Commitments and Obligations	28,290,825	2,133,754	4,401,093	4,607,163	17,148,815

OFF BALANCE SHEET ARRANGEMENTS

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

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OUTSTANDING SHARE CAPITAL

As at September 30, 2011 there were 38,950,262 common shares issued and outstanding for a total of \$96,945,332 in share capital, 275,575 common shares issuable upon the exercise of outstanding stock options at a weighted-average exercise price of \$3.36 per share, 1,016,486 common shares reserved for future grant or issuance under the Company's stock option plan and 1,700,163 common shares issuable upon the exercise of outstanding warrants at a weighted average exercise price of \$2.00 per share.

As at November 14, 2011, there were 38,950,262 common shares issued and outstanding, 215,715 (of which 140,570 are exercisable at a weighted-average exercise price of \$0.88 per share) common shares issuable upon the exercise of outstanding stock options at a weighted-average exercise price of \$3.42 per share, with 1,076,346 common shares reserved for future grant or issuance under the Company's stock option plan. The outstanding warrants expired on October 28, 2011 and October 31, 2011 unexercised.

RELATED PARTY TRANSACTIONS

The Company retained a law firm in which a corporate partner was a non-management member of the Board of Directors until May 3, 2010. For the three and nine month period ended September 30, 2010, the Company incurred legal expenses from this law firm totaling \$ 15,797 of which none remains outstanding.

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, trade receivables, other receivables, accounts payable and accrued and other liabilities the carrying amounts approximate fair values due to their short-term nature.

Concentration of credit risk with respect to accounts receivable is principally limited to certain customers to whom we make substantial sales. Customers that represent a concentration risk are those whose outstanding receivable is 10% or greater than the total balance or those customers who represent 10% or greater of our total revenue. As at September 30, 2011, one customer represents 69% of the trade receivables balance [December 31, 2010 – two customers represented 72%]. For the three months ended September 30, 2011, one customer represents 57% of total product sales [2010 – three customers represented 58%]. For the nine months ended September 30, 2011, one customer represents 45% of total product sales [2010 – three customers represented 62%]. For the three months ended September 30, 2011, one customer represents 97% of total service revenue [2010 – one customer represented 100%]. For the nine months ended September 30, 2011, one customer represents 97% of total service revenue [2010 – two customers represented 91%] of total service revenues. To reduce this risk, we routinely assess the financial strength of our customers and, as a consequence, believe that our accounts receivable credit risk exposure is limited. We historically have not experienced any significant credit losses related to an individual customer or groups of customers in any particular industry or geographic area except as noted in our restatement adjustments which was due to the termination of the Sales and Distribution Agreement by Roche.

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

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 U.S. dollars. Significant losses may occur due to significant balances of cash held in U.S. dollars that may be affected negatively by a decline in the value of the U.S. dollar as compared to the Canadian dollar. The Company mitigates foreign exchange risk by maintaining a U.S. dollar bank account for all U.S. revenues and expenditures, thereby minimizing currency exchange. A 10% depreciation or appreciation of the Canadian dollar against the U.S. dollar would result in an increase/decrease of approximately \$77,000 in the Company's loss.

SUBSEQUENT EVENTS

Subsequent to the period ended September 30, 2011, there was additional turnover at the management level which results in additional severance payments of up to \$0.1 million which will be paid over 2011 and 2012

CONTINGENCIES

As noted above, the Company received notification from Roche Diagnostics that they have terminated the sales and distribution agreement between Roche and the Company dated June 25, 2008. This termination gives rise to loss contingencies that have a reasonable possibility of occurring but for which the potential amount of loss cannot be reasonably estimated.

In addition, the circumstances leading to the financial statement adjustments described in note 4 of the restated audited consolidated financial statements, give rise to loss contingencies that are reasonably possible of occurrence but for which the potential amount of losses cannot be reasonably estimated.

DISCLOSURE AND FINANCIAL REPORTING CONTROLS

Evaluation of Disclosure Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of our management of the effectiveness of the design and operation of the disclosure controls and procedures (as defined in National Instrument 52-109 and Rule 13a-15(e) under the United States Securities Exchange Act of 1934, as amended) of the Company as at 30 September 2011.

In connection with the previously announced restatements of certain of our prior period financial statements, management of the Company, including our new interim Chief Executive Officer and Corporate Controller determined that due to the material weaknesses in internal control over financial reporting described in the restated annual MD&A, the Company's disclosure controls and procedures were not effective as of 30 September 2011. Additional information regarding the prior restatements is contained in the Company's amended regulatory filings.

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

Evaluation of Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in National Instrument 52-109 and Rule 13a-15(e) under the United States Securities Exchange Act of 1934, as amended) for us.

Our management has assessed the effectiveness of our internal control over financial reporting as of 30 September 2011. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. As a result of this assessment, management concluded that the material weaknesses identified and disclosed in prior regulatory filings are still being addressed through implementation of a series of improvements to internal policies, procedures, and controls and that our internal control over financial reporting at September 30, 2011 were not effective.

The Company's management believes that while the most severe previous period material weaknesses have been addressed and the financial reporting for the period ended September 30, 2011 is accurate, additional efforts underway should continue to further improve and enhance internal policies, controls, and procedures. The Company's management is committed to continuing to improve the Company's internal control processes and will continue to diligently and vigorously review the Company's financial reporting controls and procedures. As the Company continues to evaluate and work to improve its internal control over financial reporting, it may determine to take additional measures to address control deficiencies or determine to modify, or in appropriate circumstances not to complete, certain remediation measures.

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 or raise additional funds 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 September 30, 2011 had an accumulated deficit of \$106,105,498 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 dependent upon its ability to obtain additional financing and on achieving profitable operations. The outcome of these matters cannot be predicted at this time. The consolidated financial statements for the periods presented do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business;
- 2) **Need to raise additional capital:** The Company has incurred substantial operating losses and has 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

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

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) **Personnel:** The Company is dependent upon members of management and scientific staff, who could leave the Company at any time. In the event the Company is unable to retain key personnel or attract, recruit and train qualified key new personnel on favourable terms, the Company may find itself unable to carry out its corporate objectives;
- 6) **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;
- 7) **Alliances:** Since the Company does not have a direct sales channel for its clinical products, 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;
- 8) **Geographical Concentration:** A significant amount of our product revenue derives from sales of our products through our distribution channel partners in China. China is a dynamic and rapidly evolving market for medical technology including the near-patient diagnostic testing market in which the Company competes. We have neither a direct presence nor personnel in China to allow us to closely monitor and understand this market. We may not be able to anticipate changes in this market as a consequence, which could materially and adversely impact our product sales.
- 9) **Distributor Concentration:** The Company depends on one distributor for a significant portion of its revenues and cash flows. If this distributor's demand significantly decreases, the Company's total product sales will be significantly reduced;
- 10) **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

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

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 us, with respect to patents in this area;

- 11) **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;
- 12) **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, together with its distribution partners, in developing the point-of-care NT-proBNP market;
- 13) **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.
- 14) **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;
- 15) **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. In addition, the criteria needed to obtain regulatory clearance has become more stringent making the appropriate clearance more difficult to obtain;
- 16) **Third-party reimbursement:** Sales and pricing of medical products, including the Company's, are affected by third-party reimbursement. Depending on manufacturing costs, the Company may not be able to profitably sell its products at prices that would be acceptable to third party reimbursement programs;
- 17) **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;
- 18) **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

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

auditors are unable to provide it with the attestation of the adequacy of the Company's internal controls over financial reporting; Effective January 1, 2011, the Company converted its primary basis of accounting from Canadian GAAP to U.S. GAAP. 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 ASC 718, involves significant assumptions that are subject to change and difficult to predict; and

- 19) **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 20-F.

Consolidated Financial Statements

Response Biomedical Corporation

(Unaudited - Expressed in Canadian dollars)

(Prepared in accordance with generally accepted accounting principles used in the United States of America (U.S. GAAP))

Three and Nine Month Periods Ended September 30, 2011 and 2010

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)

(Prepared in accordance with U.S. GAAP [note 2])

	September 30 2011 \$	December 31, 2010 \$
ASSETS		
Current		
Cash	1,789,925	4,330,117
Trade receivables, net	1,069,659	1,218,670
Other receivables	56,259	100,885
Inventories [note 6]	2,686,854	3,040,755
Prepaid expenses and other	520,782	201,853
Total current assets	6,123,479	8,892,280
Long-term prepaid expenses	61,400	61,400
Restricted investments [note 8[iii]]	1,002,185	905,112
Property, plant and equipment	8,708,235	9,599,605
Intangible assets	40,814	65,534
	15,936,113	19,523,931
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable, accrued liabilities [note 7]	2,654,395	1,673,465
Lease inducements - current portion [note 8]	168,939	168,939
Repayable leasehold improvement allowance, current portion [note 8]	322,907	297,449
Deferred revenue - current portion [note 9]	528,246	550,379
Total current liabilities	3,674,487	2,690,232
Lease inducements [note 8]	1,745,696	1,872,399
Repayable leasehold improvement allowance [note 8]	6,538,880	6,784,345
Deferred revenue [note 9]	90,191	122,880
	12,049,254	11,469,856
Commitments and contingencies [notes 12 and 16]		
Shareholders' equity		
Share capital	96,945,332	96,945,332
Contributed surplus	13,047,025	12,627,522
Deficit	(106,105,498)	(101,518,779)
Total shareholders' equity	3,886,859	8,054,075
	15,936,113	19,523,931

See accompanying notes

On behalf of the Board:

/s/ Peter A. Thompson
Dr. Peter A. Thompson (Director)

/s/ Lewis J. Shuster
Lewis J. Shuster (Director)

Response Biomedical Corporation

CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS, AND DEFICIT

(Unaudited - Expressed in Canadian dollars)

(Prepared in accordance with U.S. GAAP [note 2])

	Three Months Ended September 30		Nine Months Ended September 30	
	2011 \$	2010 \$	2011 \$	2010 \$
		Restated [note 4]		Restated [note 4]
REVENUE				
Product sales [note 13]	1,563,841	1,542,230	6,277,920	5,057,188
Cost of sales [notes 6 and 10[d]]	1,284,556	1,592,502	5,065,648	4,800,381
Gross profit on product sales	279,285	(50,272)	1,212,272	256,807
Contract service fees and revenues from collaborative research arrangements [note 13]	7,534	10,771	462,762	300,805
	286,819	(39,501)	1,675,034	557,612
EXPENSES				
Research and development [note 10[d]]	802,502	1,261,440	2,093,553	3,903,313
General and administrative [notes 10[d] and 11]	1,399,778	663,484	2,855,066	2,229,488
Marketing and business development [note 10[d]]	224,190	382,622	797,368	1,045,945
	2,426,470	2,307,546	5,745,987	7,178,746
OTHER EXPENSES (INCOME)				
Interest expense [note 8[iii]]	190,085	201,889	589,046	616,719
Interest income	(3,657)	(4,880)	(14,047)	(6,380)
Foreign exchange loss (gain)	(125,307)	37,730	(59,233)	42,744
	61,121	234,739	515,766	653,083
Loss and comprehensive loss for the period	(2,200,772)	(2,581,786)	(4,586,719)	(7,274,217)
Loss per common share - basic and diluted	(0.06)	(0.07)	(0.12)	(0.25)
Weighted average number of common shares outstanding	38,950,262	34,742,784	38,950,262	28,593,170

See accompanying notes

Response Biomedical Corporation

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Unaudited - Expressed in Canadian dollars)

(Prepared in accordance with U.S. GAAP [note 2])

		Common Stock Issued and Outstanding	Contributed Surplus	Deficit	Total Shareholder Equity
	# of shares	\$	\$	\$	\$
Balance at December 31, 2010	38,950,262	96,945,332	12,627,522	(101,518,779)	8,054,075
Net loss	-	-	-	(4,586,719)	(4,586,719)
Stock-based compensation expense	-	-	419,503	-	419,503
Balance at September 30, 2011	38,950,262	96,945,332	13,047,025	(106,105,498)	3,886,859

		Common Stock Issued and Outstanding	Contributed Surplus	Deficit	Total Shareholder Equity
	# of shares	\$	\$	\$	\$
Restated [note 4]					
Balance at December 31, 2009	25,467,152	89,015,372	12,068,038	(91,436,868)	9,646,542
Net loss				(7,274,217)	(7,274,217)
Private placement, net of issue costs [note 10(b)]	13,333,333	7,474,920	-	-	7,474,920
Exercise of stock options	270	324	-	-	324
Reclassification of stock based compensation on exercise of stock options		162	(162)	-	-
Stock-based compensation expense		-	459,369	-	459,369
Balance at September 30, 2010	38,800,755	96,490,778	12,527,245	(98,711,085)	10,306,938

See accompanying notes

Response Biomedical Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2011 and 2010

(Unaudited – Expressed in Canadian dollars)

(Prepared in accordance with U.S. GAAP)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited - Expressed in Canadian dollars)

(Prepared in accordance with U.S. GAAP [note 2])

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
	\$	\$	\$	\$
		Restated [note 4]		Restated [note 4]
OPERATING ACTIVITIES				
Loss for the period	(2,200,772)	(2,581,786)	(4,586,719)	(7,274,217)
Add (deduct) items not involving cash:				
Amortization of plant and equipment	308,847	330,020	958,797	990,275
Amortization of intangible assets	8,240	17,080	24,720	50,301
Amortization of deferred lease inducements [note 8]	(42,235)	(42,234)	(126,703)	(126,702)
Restricted investments	(91,084)	(1,385)	(97,073)	(933)
Stock-based compensation [note 10[d]]	118,346	122,121	419,503	459,369
Foreign exchange	(42,686)	21,550	(66,079)	(2,147)
Changes in non-cash working capital				
Trade receivables	279,342	211,877	149,011	273,894
Other receivables	22,313	3,805	44,626	(13,817)
Inventories	(246,112)	(225,118)	353,901	(1,897,148)
Prepaid expenses and other	(283,472)	134,342	(318,929)	40,737
Accounts payable and accrued liabilities	1,225,286	(742,854)	980,930	344,666
Deferred revenue	287,045	170,311	(54,822)	195,145
Cash used in operating activities	(656,942)	(2,582,271)	(2,318,837)	(6,960,577)
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(42,055)	(30,865)	(67,427)	(60,138)
Purchase of intangible assets	-	(2,950)	-	(19,594)
Cash used in investing activities	(42,055)	(33,815)	(67,427)	(79,732)
FINANCING ACTIVITIES				
Repayment of repayable lease inducement [note 8(iii)]	(75,353)	(67,537)	(220,007)	(197,189)
Proceeds from issuance of common shares	-	7,474,920	-	7,474,920
Proceeds from exercise of stock options	-	-	-	324
Cash (used in) provided by in financing activities	(75,353)	7,407,383	(220,007)	7,278,055
Effect of changes in foreign currency rates on cash and cash equivalents	42,686	(21,550)	66,079	2,147
(Decrease) Increase in cash during the period	(731,664)	4,769,747	(2,540,192)	239,893
Cash and cash equivalents, beginning of period	2,521,589	543,617	4,330,117	5,073,471
Cash and cash equivalents, end of period	1,789,925	5,313,364	1,789,925	5,313,364

Response Biomedical Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2011 and 2010

(Unaudited – Expressed in Canadian dollars)

(Prepared in accordance with U.S. GAAP)

1. DESCRIPTION OF BUSINESS, 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. A large variety of biological molecules and 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, the respiratory syncytial virus, environmental detection of West Nile Virus, and biodefense applications including the rapid on-site detection of anthrax, smallpox, ricin and botulinum toxin.

These unaudited interim consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles used in the United States of America (“U.S. GAAP”) on a going concern basis. The Company issued its audited annual consolidated financial statements for the year ended December 31, 2010 in accordance with Canadian GAAP and also provided a reconciliation of the differences between Canadian GAAP and U.S. GAAP in Note 18 to those audited annual consolidated financial statements. These unaudited interim consolidated financial statements may not include all the disclosures required by U.S. GAAP on an annual basis, and therefore should be read in conjunction with the restated annual audited consolidated financial statements for the year ended December 31, 2010 filed with the appropriate securities commissions. The results of operations for the three and nine month periods ended September 30, 2011 and 2010 are not necessarily indicative of the results for the full year.

The Company has sustained continuing losses since its formation resulting in a deficit of \$106,105,498 as at September 30, 2011 and has not generated positive cash flow from operations. 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 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 dependent 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 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.

Response Biomedical Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2011 and 2010

(Unaudited – Expressed in Canadian dollars)

(Prepared in accordance with U.S. GAAP)

1. DESCRIPTION OF BUSINESS, BASIS OF PRESENTATION AND GOING CONCERN UNCERTAINTY (Cont'd)

The Company and industry is affected by seasonality, including governmental budget cycles. Accordingly, revenues, sales volumes and operating results for interim quarters are not necessarily indicative of the results that may be expected for the full fiscal year.

The accompanying unaudited 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 September 30, 2011 and its results of operations and its cash flows for the periods then ended and for all such periods presented.

2. CHANGE IN GENERALLY ACCEPTED ACCOUNTING POLICIES

The Company's policies under U.S. GAAP are consistent with those as presented in the audited annual consolidated financial statements as at and for the year ended December 31, 2010 in all material respects. The Company historically prepared its consolidated financial statements in conformity with Canadian generally accepted accounting principles and provided a supplemental reconciliation to U.S. GAAP. Effective January 1, 2011, the Company adopted U.S. GAAP as the reporting standard for its consolidated financial statements. These consolidated interim financial statements, including related notes, have therefore been prepared in accordance with U.S. GAAP. All comparative financial information contained herein has been recast to reflect the Company's results as if the Company had historically reported in accordance with U.S. GAAP. These adjustments resulted in an increase in deficit of \$736,558, a decrease in share capital of \$69,288 and increase in contributed surplus of \$805,846 as at January 1, 2011. These differences are outlined in our annual audited consolidated financial statements for the year ended December 31, 2010 in Note 18.

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, 2010. There were no significant adoptions or changes in accounting policies since the fiscal year ended December 31, 2010.

3. RECENT ACCOUNTING PRONOUNCEMENTS

Effective December 31, 2010 the Company adopted the provisions of FASB issued SFAS No. 168, The FASB Accounting Standards Codification ("Codification") and the Hierarchy of Generally Accepted Accounting Principles ("SFAS 168") - a replacement of FASB Statement No. 162, The Hierarchy of Generally Accepted Accounting Principles. Under the provisions of SFAS 168, the Codification will become the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. The rules and interpretive releases of the SEC under federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of SFAS 168, the Codification superseded all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. The adoption of this standard did not have a material effect on the Company's consolidated financial statements.

In the first quarter of 2011, the Company adopted Accounting Standards Codification (ASC) Subtopic 605-25, Revenue Recognition - Multiple-Element Arrangements (ASC Subtopic 605-25). ASC Subtopic 605-25 provides principles for allocation of consideration among multiple-elements in an arrangement, allowing more flexibility in identifying and accounting for revenue from separate deliverables under an arrangement. ASC Subtopic 605-25 introduces an estimated selling price method for allocating revenue to the elements of a bundled arrangement if

Response Biomedical Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2011 and 2010

(Unaudited – Expressed in Canadian dollars)

(Prepared in accordance with U.S. GAAP)

3. RECENT ACCOUNTING PRONOUNCEMENTS (Cont'd)

vendor-specific objective evidence or third-party evidence of selling price is not available, and significantly expands related disclosure requirements. This standard is effective on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The adoption of ASC Subtopic 605-25 did not have a material effect on our consolidated financial statements.

In the first quarter of 2011, the Company adopted Accounting Standards Codification (ASC) Subtopic 605–28, Milestone Method of Revenue Recognition (ASC Subtopic 605-28). This standard provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for certain research and development transactions. Under this new standard, a company can recognize as revenue consideration that is contingent upon achievement of a milestone in the period in which it is achieved, only if the milestone meets all criteria to be considered substantive. This standard is effective for periods beginning after January 1, 2011. The adoption of this standard did not have a material effect on the Company's consolidated financial statements.

In the second quarter of 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. ASU 2011-05 eliminates the option to present other comprehensive income in the statement of changes in equity and provides the option to present the components of net income and comprehensive income in either one combined financial statement or two consecutive financial statements. We currently present the components of comprehensive income in our Consolidated Statements of loss, comprehensive loss and deficit. The adoption of ASU 2011-05 did not affect our operating results, cash flows or financial position.

Response Biomedical Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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4. PRIOR PERIOD RESTATEMENT

The comparative financial information for the three and nine month periods ending September 30, 2010 has been restated. An adjustment for royalty costs included in cost of sales originally reflected in the fourth quarter of 2010 has been restated to each quarter in 2010. The impact of this restatement is to increase cost of sales by \$28,527 for the three months ended September 30, 2010, with a cumulative increase of \$192,806 for the nine months as at and ending September 30, 2010.

The effect of these adjustments on the consolidated balance sheet as at September 30, 2010 is summarized below:

	<i>As previously reported</i>	<i>Adjustment</i>	<i>As Restated</i>
	\$	\$	\$
Accounts payable and accrued liabilities	1,725,864	192,806	1,918,670
Deficit	(98,518,279)	(192,806)	(98,711,085)

The effect of these adjustments on the consolidated statement of loss and comprehensive loss for the three months ended September 30, 2010 is summarized below:

	<i>As previously reported</i>	<i>Adjustment</i>	<i>As Restated</i>
	\$	\$	\$
Cost of sales	1,563,975	28,527	1,592,502
Loss and comprehensive loss for the year	(2,553,259)	(28,527)	(2,581,786)

The effect of these adjustments on the consolidated statement of loss and comprehensive loss for the nine months ended September 30, 2010 is summarized below:

	<i>As previously reported</i>	<i>Adjustment</i>	<i>As Restated</i>
	\$	\$	\$
Cost of sales	4,607,575	192,806	4,800,381
Loss and comprehensive loss for the year	(7,081,411)	(192,806)	(7,274,217)

The effect of these adjustments on the consolidated statement of cash flows for the three months ended September 30, 2010 is summarized below:

	<i>As previously reported</i>	<i>Adjustment</i>	<i>As Restated</i>
	\$	\$	\$
Loss and comprehensive loss for the year	(2,553,259)	(28,527)	(2,581,786)
Accounts payable and accrued liabilities	(771,381)	28,527	(742,854)
Cash used in operating activities	(2,582,271)	-	(2,582,271)

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4. PRIOR PERIOD RESTATEMENT (Cont'd)

The effect of these adjustments on the consolidated statement of cash flows for the nine months ended September 30, 2010 is summarized below:

	<i>As previously reported</i>	<i>Adjustment</i>	<i>As Restated</i>
	\$	\$	\$
Loss and comprehensive loss for the year	(7,081,411)	(192,806)	(7,274,217)
Accounts payable and accrued liabilities	151,860	192,806	344,666
Cash used in operating activities	(6,960,577)	-	(6,960,577)

5. FINANCIAL INSTRUMENTS

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

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 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 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.

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. There have been no significant changes in risk since the end of December 31, 2010, the last completed fiscal year that would affect the fairness of the presentation of financial data at this date, other than the change to credit risk as a result of the allowance for doubtful accounts that was recorded during the period as a result of the issues surrounding the termination of the Sales and Distribution agreement with Roche Diagnostics as discussed in more detail in note 16. As at September 30, 2011, the Company had an allowance for doubtful accounts of \$67,750 (December 31, 2010: nil).

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6. INVENTORIES

	September 30, 2011	December 31, 2010
	\$	\$
Raw materials	776,881	876,181
Work in process	507,375	567,777
Finished goods	1,402,598	1,596,797
	2,686,854	3,040,755

The carrying value of inventory as at September 30, 2011 includes a provision for lower of cost and net realizable value in the amount of \$341,027 [December 31, 2010 - \$222,453]. For the three and nine month periods ended September 30, 2011, inventory write-downs and obsolescence charges were (\$13,323) and \$385,38 [2010 - \$123,969 and \$262,369].

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities comprise:

	September 30, 2011	December 31, 2010
	\$	\$
Trade accounts payable	746,632	717,648
Employee related accounts payable and accruals	885,289	391,760
Other accrued liabilities	1,022,474	564,057
Total Accounts payable and accrued liabilities	2,654,395	1,673,465

In accordance with Accounting Standards Codification Subtopic 420-10, Exit or Disposal Cost Obligation, included in employee related accruals are costs related to restructuring activities that commenced in September, 2010, focusing on a 25% reduction in the workforce.

	2011	2010
	\$	\$
Balance at December 31	240,949	-
Additional terminations under the plan	931,063	2,788
Payments made during the period	(366,134)	-
Balance as at September 30	805,878	2,788

The liability is measured using fair value at the date of termination.

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8. LEASE INDUCEMENTS

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

	Cost \$	Accumulated reduction \$	Net book value \$
September 30, 2011			
Rent-free inducement [i]	814,164	199,017	615,147
Non-repayable leasehold improvement allowance [ii]	1,700,800	401,312	1,299,488
	2,514,964	600,329	1,914,635
Repayable leasehold improvement allowance [iii]	7,814,418	952,631	6,861,787
	10,329,382	1,552,960	8,776,422
December 31, 2010			
Rent-free inducement [i]	814,164	158,308	655,856
Non-repayable leasehold improvement allowance [ii]	1,700,800	315,318	1,385,482
	2,514,964	473,626	2,041,338
Repayable leasehold improvement allowance [iii]	7,814,418	732,624	7,081,794
	10,329,382	1,206,250	9,123,132
	September 30 2011	December 31, 2010	
Summarized as to:	\$	\$	
Current Portion			
Rent-free inducement [i]	54,278	54,278	
Non-repayable leasehold improvement allowance [ii]	114,661	114,661	
	168,939	168,939	
Repayable leasehold improvement allowance [iii]	322,907	297,449	
Current Portion	491,846	466,388	
Long-Term Portion			
Rent-free inducement [i]	560,869	601,578	
Non-repayable leasehold improvement allowance [ii]	1,184,827	1,270,821	
	1,745,696	1,872,399	
Repayable leasehold improvement allowance [iii]	6,538,880	6,784,345	
Long-Term Portion	8,284,576	8,656,744	
Total	8,776,422	9,123,132	

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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] In 2007, the Company negotiated a long-term facility lease agreement 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 and nine month periods ended September 30, 2011 amounted to \$13,570 and \$40,708 [2010 - \$13,569 and \$40,708].
- [ii] The Company received a non-repayable allowance for an amount of \$1.7 million for expenditures related to general upgrades to the facility. 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 lease beginning April 1, 2008 as a reduction to rental expense. Amortization expense for three and nine month periods ended September 30, 2011 amounted to \$28,665 and \$85,995 [2010 - \$28,665 and \$85,995].
- [iii] The Company received a repayable leasehold improvement for an amount of \$7.8 million used for additional improvements to the facility. 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 and nine month periods ended September 30, 2011 amounted to \$75,352 and \$220,006 [2010 - \$67,536 and \$197,187]. Interest payments for the three and nine month periods ended September 30, 2011 amounted to \$190,085 and \$576,304 [2010 - \$197,900 and \$599,122].

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

September 30	Principal	Interest	Total
	\$	\$	\$
2012	322,907	738,839	1,061,746
2013	360,274	701,472	1,061,746
2014	401,964	659,782	1,061,746
2015	448,479	613,267	1,061,746
2016	500,377	561,369	1,061,746
Thereafter	4,827,786	1,896,605	6,724,391
	6,861,787	5,171,334	12,033,121

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 a term deposit with market value of \$883,809 [2010 - \$871,980], which is presented as part of restricted investments in the long-term asset section of the consolidated balance sheets.

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9. DEFERRED REVENUE

	September 30 2011 \$	December 31, 2010 \$
Beginning balance:		
Product sales	154,333	169,279
Contract service fees and revenues from collaborative research arrangements	518,926	515,701
Additions:		
Product sales	632,293	308,244
Contract service fees and revenues from collaborative research arrangements	-	176,560
Recognition of revenue:		
Product sales	(225,187)	(323,190)
Contract service fees and revenues from collaborative research arrangements	(461,928)	(173,335)
Ending balance:		
Product sales	561,439	154,333
Contract service fees and revenues from collaborative research arrangements	56,998	518,926
	618,437	673,259
Summarized as to:		
Current Portion		
Product sales	499,747	66,641
Contract service fees and revenues from collaborative research arrangements	28,499	483,738
Current Portion	528,246	550,379
Long-Term Portion		
Product sales	61,692	87,692
Contract service fees and revenues from collaborative research arrangements	28,499	35,188
Long-Term Portion	90,191	122,880
Total	618,437	673,259

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10. SHARE CAPITAL AND CONTRIBUTED SURPLUS

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

[b] **Issued**

The Company closed a private placement on July 28, 2010 consisting of 13,333,333 common shares at a price of \$0.60 per share, for total gross proceeds of \$8,000,000 before share issuance costs of \$525,080 for net proceeds of \$7,474,920.

[c] **Stock option plan**

At the Annual General Meeting held June 3, 2008, the Company's shareholders' approved a new stock option plan ("2008 Plan") to be compliant with the Toronto Stock Exchange ("TSX") rules following the listing of the Company's shares on the TSX in December 2007. Of the 1,700,000 stock options authorized for grant under the 2008 Plan, 1,016,486 stock options are available for grant at September 30, 2011.

At September 30, 2011, the following stock options were outstanding:

	Options outstanding September 30, 2011			Options exercisable September 30, 2011		
Range of exercise price \$	Number of shares under option #	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number of options currently exercisable #	Weighted average exercise price \$	
0.00 - 1.99	177,270	3.35	0.84	18,445	1.19	
5.00 - 5.99	10,235	0.01	5.20	10,234	5.20	
6.00 - 6.99	32,741	0.96	6.76	23,819	6.71	
7.00 - 7.99	1,500	1.56	7.30	750	7.30	
8.00 - 8.99	40,493	0.96	8.80	27,020	8.80	
10.00 - 10.99	13,336	0.97	10.22	13,333	10.22	
0.00 – 10.99	275,575	2.46	3.36	93,601	6.57	

The options expire at various dates from October 3, 2011 to June 21, 2016.

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10. SHARE CAPITAL AND CONTRIBUTED SURPLUS (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, 2009	1,073,133	5.93
Options granted	130,238	0.42
Options forfeited	(333,468)	5.47
Options expired	(15,701)	6.01
Options exercised	(270)	1.20
Balance, December 31, 2010	853,932	5.27
Options granted	15,600	0.34
Options forfeited	(416,885)	6.12
Options expired	(177,072)	5.82
Balance, September 30, 2011	275,575	3.36

[d] Stock-based compensation

For the three and nine month periods ended September 30, 2011, the Company recognized compensation expense of \$118,346 and \$419,503 [2010 - \$122,121 and \$459,369] as a result of stock options granted to officers, directors and employees, with a corresponding credit to contributed surplus.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
Cost of sales	14,404	8,127	37,194	34,125
Research and development	5,240	28,816	24,808	89,251
Marketing and business development	31,181	12,416	90,365	39,188
General and administrative	67,521	72,762	267,136	296,805
	118,346	122,121	419,503	459,369

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10. SHARE CAPITAL AND CONTRIBUTED SURPLUS (Cont'd)

[e] Common share purchase warrants

At September 30, 2011, the following common share purchase warrants are outstanding:

Issue Date	Number of common shares issuable	Exercise price \$	Expiry date
October 28, 2008	1,554,218	\$2.00	October 28, 2011
October 31, 2008	145,945	\$2.00	October 31, 2011
	1,700,163		

The above warrants have subsequently expired un-exercised.

Common share purchase warrant transactions are summarized as follows:

	Number of warrants #	Weighted average exercise price \$
Balance, December 31, 2009	6,169,829	2.36
Warrants issued	(149,507)	2.50
Balance, December 31, 2010	6,020,322	2.36
Warrants expired	(4,320,159)	2.50
Balance, September 30, 2011	1,700,163	2.00

11. RELATED PARTY TRANSACTIONS

The Company retained a law firm in which a corporate partner was a non-management member of the Board of Directors until May 3, 2010. For the three and nine month period ended September 30, 2011, the Company incurred legal expenses from this law firm totaling \$0 [2010 - \$0 and \$15,797] of which none remains outstanding.

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

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12. COMMITMENTS

[a] License agreements

[i] 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 and nine month periods ended September 30, 2011, the Company incurred an expense of \$2,500 and \$8,500 [2010 - \$2,750 and \$8,250] for royalty and license fees.

[ii] The Company entered into a non-exclusive license agreement, effective July 2005, as amended June 2008, to use and sublicense certain technology (“Technology”) for one of the Company’s cardiac tests. In consideration for these rights, the Company paid a non-refundable license issuance fee of \$2,000,000 in the first two years after execution of the agreement and is required to pay quarterly royalties on the sale of products that incorporate the Technology. For the three and nine month periods ended September 30, 2011, the Company incurred an expense of \$95,201 and \$299,489 [2010 - \$9,891 and \$32,760] for royalty and license fees.

[iii] The company entered into a non-exclusive license and supply agreement, effective June 30, 2009 to purchase certain proprietary materials “Materials” and use related intellectual property to manufacture, sell and have sold lateral flow immunoassay products. In consideration for these rights, the Company is to pay a non-refundable, non-creditable license fee, of USD\$85,000 in 17 equal quarterly payments of USD\$5,000 commencing December 31, 2009. For the three and nine month periods ended September 30, 2011, the Company incurred an expense of \$4,952 and \$14,655 [2010 - \$5,079 and \$20,317 for license fees.

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12. COMMITMENTS (Cont'd)

The minimum annual purchase commitments for the above licenses are as follows:

September 30,	Total \$
2012	179,875
2013	168,845
2014	188,652
2015	198,084
2016	50,118
Thereafter	-
	<hr/> 785,574 <hr/>

All royalty and license fees incurred are included in cost of sales.

[b] Indemnification of directors and officers

Under the Articles of the Company, applicable law and agreements with its directors and 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.

[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 and nine month periods ended September 30, 2011, the Company incurred an expense of \$3,368 and \$36,604 [2010 - \$13,324 and \$21,934] for royalties to the supplier.

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12. COMMITMENTS (Cont'd)

[e] Lease agreements

- [i] 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 leasehold improvement allowance [Note 8[iii]].

For the three and nine month periods ended September 30, 2011, \$378,117 and \$1,136,633 [2010 - \$378,385 and \$1,146,658] 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 leasehold improvement allowance offset by amortization of both the rent-free inducement [Note 8[i]] and non-repayable leasehold improvement allowance [Note 8[ii]]. These expenses are allocated to cost of sales, research and development, general and administrative, and market and business development expenses.

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

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

September 30,	Premise*	Equipment	Total
	\$	\$	\$
2012	2,004,453	51,898	2,056,351
2013	2,041,410	51,898	2,093,308
2014	2,080,336	51,898	2,132,234
2015	2,121,366	51,898	2,173,264
2016	2,164,646	30,274	2,194,920
Thereafter	14,882,132	-	14,882,132
	25,294,343	237,866	25,532,209

* Includes base rent, administrative and management fees, estimated property taxes and principal and interest payments on the repayable leasehold improvement allowance

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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.

Customers that represent a concentration risk are those whose outstanding receivable is 10% or greater than the total balance or those customers who represent 10% or greater of our total revenue. For the three and nine month periods ended September 30, 2011, \$885,215 (57%) and \$2,843,611 (45%) in product sales were generated from one customer [2010 - \$894,274 (58%) and \$3,120,030 (62%) from three customers].

Product sales by customer location were as follows:

	Three months ended September 30		Nine months ended September 30	
	2011 \$	2010 \$	2011 \$	2010 \$
		Restated [note 4]		Restated [note 4]
Asia (Japan, China and Other)	1,072,964	892,899	4,175,917	3,216,392
United States	191,909	292,217	1,105,635	901,069
Europe and Middle East	210,203	161,113	795,832	558,451
Canada	14,914	14,559	46,074	42,305
Other	73,851	181,442	154,462	338,971
Total	1,563,841	1,542,230	6,277,920	5,057,188

Product sales by type of product were as follows:

	Three months ended September 30		Nine months ended September 30	
	2011 \$	2010 \$	2011 \$	2010 \$
		Restated [note 4]		Restated [note 4]
Clinical products	1,429,981	1,249,385	4,995,322	4,449,469
Vector products (West Nile Virus)	33,683	158,417	737,514	365,196
Bio-defense products	100,177	134,428	545,084	242,523
Total	1,563,841	1,542,230	6,277,920	5,057,188

For the three and nine month periods ended September 30, 2011, 100% of the Company's contract service fees and revenues from collaborative research arrangements were generated from two customers [2010 – 100% from one and three customers respectively].

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13. SEGMENTED INFORMATION (Cont'd)

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

	Three months ended		Nine months ended	
	September 30		September 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
		Restated [note 4]		Restated [note 4]
Asia	7,125	8,797	13,377	26,391
Europe	-	-	-	132,789
United States	409	1,974	449,385	141,625
Total	7,534	10,771	462,762	300,805

14. ACCOUNTING FOR TAX UNCERTAINTIES

The amount of liability for unrecognized tax benefits as of September 30, 2011 and December 31, 2010 is nil.

The Company recognizes interest and penalties related to income taxes in interest income (expense). To date, the Company has not incurred any significant interest and penalties.

15. COMPARATIVE FIGURES

In addition to the changes described in note 2, certain comparative figures have been reclassified from the amounts previously reported to conform to the presentation adopted in the current year.

16. CONTINGENCIES

On September 2, 2011, the Company received notification from Roche Diagnostics that they have terminated, effective September 30, 2011, the sales and distribution agreement between Roche and the Company dated June 25, 2008. Roche Diagnostics terminated the agreement because the Company has not obtained the necessary approvals from the U.S. Food and Drug Administration (FDA) to permit Roche Diagnostics to market the Company's cardiovascular tests for use in point-of-care settings in the United States using the RAMP® 200 Reader. This termination gives rise to loss contingencies that have a reasonable possibility of occurring but for which the potential amount of loss cannot be reasonably estimated.

In addition, the circumstances leading to the financial statement adjustments described in note 4 of the restated audited consolidated financial statements, give rise to loss contingencies that are reasonably possible of occurrence but for which the potential amount of losses cannot be reasonably estimated.

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(Prepared in accordance with U.S. GAAP)

17. SUBSEQUENT EVENTS

Subsequent to the quarter, there was additional turnover at the management level resulting in additional severance payments of up to \$0.1 million which will be paid over 2011 and 2012 in addition to what is disclosed in note 7.

