



Afexa Life Sciences Inc.

**CONSOLIDATED FINANCIAL
STATEMENTS (AUDITED)**

For the year ended
March 31, 2011



Management's Report

The accompanying consolidated financial statements of Afexa Life Sciences Inc. are the responsibility of management. Management has prepared the accompanying consolidated financial statements in accordance with Canadian generally accepted accounting principles. The consolidated financial statements necessarily include some amounts that are based on management's best estimates, which have been made using careful judgment. Financial and operating data elsewhere in the accompanying annual report are consistent with the information contained in the accompanying consolidated financial statements.

In fulfilling its responsibilities, management of Afexa Life Sciences Inc. maintains a system of internal control. Management continuously reviews and revises internal controls to ensure that the control systems provide reasonable assurance that the control system is appropriate for the business, and to ensure alignment with the Company's strong ethical environment.

The Board of Directors is responsible for overall governance of Afexa Life Sciences Inc. This includes overseeing management in the performance of its financial reporting responsibilities and reviewing and approving the consolidated financial statements. The Board of Directors carries out its oversight responsibility over the financial reporting process primarily through its Audit Committee. The Audit Committee, which consists solely of non-management directors, meets periodically with management and the external auditors to discuss the annual audit, internal controls over the financial reporting process, accounting policies and practices, and other financial reporting matters. The accompanying consolidated financial statements have been audited by Ernst & Young LLP, Chartered Accountants, who have full access to the Audit Committee, with and without the presence of management. Their report follows hereafter.

(signed) "Jack Moffatt"

Jack Moffatt
President and
Chief Executive Officer

(signed) "Allan Cleiren"

Allan Cleiren
Chief Financial Officer and
Senior Vice President Operations

Independent Auditors' Report

To the Shareholders of Afexa Life Sciences Inc.

We have audited the accompanying consolidated financial statements of Afexa Life Sciences Inc., which comprise the consolidated balance sheets as at March 31, 2011 and 2010, and the consolidated statements of loss and comprehensive loss and deficit and cash flows for the twelve month period ended March 31, 2011, the six month period ended March 31, 2010 and the twelve month period ended September 30, 2009, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Afexa Life Sciences Inc. as at March 31, 2011 and 2010 and the results of its operations and its cash flows for the twelve-month period ended March 31, 2011, the six-month period ended March 31, 2010 and the twelve-month period ended September 30, 2009 in accordance with Canadian generally accepted accounting principles.

(signed) "Ernst & Young LLP"

Edmonton, Canada,
June 9, 2011

Chartered Accountants

Consolidated Balance Sheets

<i>(in thousands of Canadian dollars)</i>	March 31, 2011	March 31, 2010
Assets		
Current		
Cash	\$ 3,691	\$ 17,685
Accounts receivable (note 4)	768	998
Inventory (note 5)	11,956	9,676
Prepaid expenses and deposits	470	502
Income taxes receivable	4,854	239
Future income tax assets (note 6)	538	738
	22,277	29,838
Intangible assets (note 7)	1,510	1,504
Property and equipment (notes 8 and 23)	11,591	12,492
Future income tax assets (note 6)	61	–
Inventory, non-current (note 5)	–	243
	\$ 35,439	\$ 44,077
Liabilities		
Current		
Accounts payable and accruals	\$ 7,887	\$ 9,531
Customer deposits (note 11)	1,628	2,094
Current portion of long-term debt (note 9)	–	710
	9,515	12,335
Other long-term liabilities	287	381
Obligations under capital lease (note 10)	843	789
Future income tax liabilities (note 6)	–	69
Deferred revenue	–	180
Long-term debt (note 9)	–	4,528
	10,645	18,282
Shareholders' Equity		
Share capital (note 12)	22,727	23,011
Contributed surplus (note 13)	8,371	8,260
Deficit	(6,304)	(5,476)
	24,794	25,795
	\$ 35,439	\$ 44,077

Commitments and contingencies (note 24)

See accompanying Notes to the Consolidated Financial Statements

On behalf of the Board:

(signed) "J. Douglas Gilpin"

(signed) "William B. White"

J. Douglas Gilpin
Chair, Audit Committee

William B. White
Chair of the Board

Consolidated Statements of Loss and Comprehensive Loss and Deficit

<i>(in thousands of Canadian dollars except per share amounts)</i>	12 Months Ended March 31, 2011	6 Months Ended March 31, 2010	12 Months Ended September 30, 2009
Revenue	\$ 39,596	\$ 34,374	\$ 47,592
Cost of goods sold	11,091	10,866	15,440
	28,505	23,508	32,152
Operating expenses			
Sales and marketing	12,981	11,330	12,838
General and administration	9,206	4,478	11,061
Research and development (note 23)	4,859	2,197	3,401
Amortization (note 15)	1,379	734	1,311
Stock-based compensation (notes 12b, 12c and 12d)	821	286	834
Loss on foreign exchange	6	7	182
	29,252	19,032	29,627
(Loss) earnings before other items and income taxes	(747)	4,476	2,525
Other items			
Interest and bank charges (note 16)	289	180	400
Interest income	(58)	(37)	(194)
Impairment of intangible assets	148	–	85
Other expense	83	21	(10)
	462	164	281
(Loss) earnings before income taxes	(1,209)	4,312	2,244
Income tax (recovery) expense (note 6)			
Current	(451)	1,915	1,267
Future	70	(392)	(324)
	(381)	1,523	943
Net (loss) earnings and comprehensive (loss) income	(828)	2,789	1,301
Deficit, beginning of period	(5,476)	(8,265)	(9,566)
Deficit, end of period	\$ (6,304)	\$ (5,476)	\$ (8,265)
(Loss) earnings per share, basic and diluted (note 14)	\$ (0.01)	\$ 0.03	\$ 0.01
Weighted average number of shares outstanding			
Basic	104,228,679	104,870,538	106,434,436
Diluted	104,228,679	105,813,793	106,446,476

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statements of Cash Flows

<i>(in thousands of Canadian dollars)</i>	12 Months Ended March 31, 2011	6 Months Ended March 31, 2010	12 Months Ended September 30, 2009
Operating activities			
Net (loss) earnings and comprehensive (loss) income	\$ (828)	\$ 2,789	\$ 1,301
Items not affecting cash:			
Stock-based compensation	821	286	782
Future income taxes	70	(392)	(324)
Amortization	1,379	734	1,311
Amortization of lease inducements	(25)	(1)	(8)
Accreted interest on long-term debt and land under capital lease	70	48	66
Loss on disposal of property and equipment	83	27	11
Impairment of intangible assets	148	–	85
	1,718	3,491	3,224
Change in non-cash operating working capital (note 20)	(9,050)	12,410	(6,016)
Change in deferred revenue	(180)	213	–
Change in non-current inventory	243	(243)	116
Cash (used in) provided by operating activities	(7,269)	15,871	(2,676)
Investing activities			
Purchase of property and equipment	(322)	(912)	(947)
Purchase of intangible assets	(466)	(112)	(465)
Proceeds on disposal of property and equipment	2	1	23
Redemption of short-term investment	–	–	5,081
Cash (used in) provided by investing activities	(786)	(1,023)	3,692
Financing activities			
Issuance of share capital	4	–	–
Share purchase under normal course issuer bid (note 12a)	(689)	(278)	(1,115)
Repayment of long-term debt (note 9)	(5,254)	(353)	(708)
Repayment of obligations under capital lease	–	(27)	(13)
Cash used in financing activities	(5,939)	(658)	(1,836)
(Decrease) increase in cash	(13,994)	14,190	(820)
Cash, beginning of period	17,685	3,495	4,315
Cash, end of period	\$ 3,691	\$ 17,685	\$ 3,495
Supplemental cash flow information:			
Interest paid	\$ 166	\$ 113	\$ 259
Interest received	58	33	194
Income taxes paid	3,969	470	3,015
Income taxes received	1,155	605	2,772
Property and equipment additions – included in accounts payable and accruals at year end	5	76	141

See accompanying Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

Year Ended March 31, 2011

All amounts are in thousands of Canadian dollars, except share and per share amounts

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Afexa Life Sciences Inc. ("Afexa" or the "Company") is a publicly traded company that develops and sells biopharmaceutical products. It is incorporated under the Business Corporations Act (Alberta). Afexa's common shares are traded on the Toronto Stock Exchange under the symbol FXA. The head office and research centre for the Company is located in Edmonton, Canada.

The Company has two subsidiary companies. COLD-FX Pharmaceuticals (USA) Inc. is incorporated in the United States, and fX Life Sciences AG is incorporated in Switzerland under the Swiss Code of Obligations.

Revenue from the Company's lead product, COLD-FX, exhibits a seasonal sales pattern tied to the frequency and severity of colds and flu, as well as other factors including weather. This typically results in higher revenue during the quarters ending September 30 and December 31 of each fiscal year compared to the other quarters of the year.

The Company has changed its fiscal year from September 30 to March 31, effective March 31, 2010. The change in year end was made to better align its financial reporting and business planning with its natural business cycle and those of its key customers and suppliers. As a result, the figures in the consolidated statement of loss and comprehensive loss and consolidated statement of cash flows are for the twelve months ended March 31, 2011, six months ended March 31, 2010 and twelve months ended September 30, 2009.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). The significant accounting policies are summarized below.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the assets, liabilities and results of operations, after the elimination of intercompany transactions and balances of the Company and its subsidiaries, all of which are wholly owned.

USE OF ESTIMATES AND MEASUREMENT UNCERTAINTY

In preparing consolidated financial statements in conformity with Canadian GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods presented. Actual results could differ from these estimates.

Significant estimates made by management include provisions for customer discounts and incentives, allowances for uncollectible accounts, rights of return, the realizable portion of inventory during the Company's normal business cycle, inventory provisions, the realizability of future income taxes, useful lives of long-lived assets, expected future cash flows used in evaluating long-lived assets for impairment, percentage completion of contracted service expenditures, and stock-based compensation fair values. On an ongoing basis, management reviews its estimates to ensure that these values appropriately reflect changes in the Company's business and new information as it becomes available.

TRANSLATION OF FOREIGN CURRENCIES

The consolidated financial statements of the Company's operations are reported in Canadian dollars. One of the Company's subsidiaries is transacted in United States dollars. This subsidiary is an integrated foreign operation which is translated using the temporal method, whereby monetary assets and liabilities are translated at the exchange rates prevailing at the consolidated balance sheet dates and non-monetary assets and liabilities are translated at the rates in effect when the assets were acquired or liabilities were assumed. Revenues and expenses are translated in a manner that produces substantially the same reporting currency amounts that would have resulted had the underlying transactions been translated on the dates they occurred.

REVENUE RECOGNITION

Revenue from the sale of goods is recognized when all of the following criteria have been met:

- evidence of a sales arrangement exists;
- title of goods has passed to the customer, which is generally at the time the goods are delivered;
- sales price is fixed or determinable; and
- product returns can be reasonably estimated or the risk of return has expired.

Provisions for estimated returns are made when revenue is recognized. When future returns cannot be reasonably estimated, revenue is not recognized until the risk of return has been substantially eliminated. This risk is substantially eliminated when the final customer purchases the product from the retailer or the risk of return has expired or been eliminated. The Company relies on third-party information to estimate when the final customer has completed a purchase. Product shipped where the risk of return cannot be estimated is included in inventory as product shipped with risk of return.

Customer discounts, rebates and incentive allowances, which do not result in a sufficiently separable benefit from the sale, are recorded as a reduction in revenue. If they are separable, they are recorded in either cost of goods sold or in sales and marketing expense, depending on the nature of the expense. For discounts, rebates and incentive allowances to be sufficiently separable from the sale of the goods, the benefit must be identifiable, available from a party other than a purchaser of the Company's products and the fair value must be reasonably estimable.

Customer discounts, rebates and incentive allowances are recognized at the later of the date on which the Company recognizes the related revenue or the date the Company offers the discount, rebate or incentive. If the related revenue is not recognized and the discount is not recoverable in the event of return, the discount is recognized at the later of the date on which the specific activity occurs or the customer recognizes the discount, rebate or incentive allowance.

CASH

Cash includes balances with banks, net of outstanding cheques.

INVENTORY

Inventories of raw and packaging materials, work-in-progress, finished goods and product shipped with risk of return are valued at the lower of cost and net realizable value. Work-in-progress costs include direct materials, labour and an allocation of overhead which are determined on a weighted average basis. The Company determines estimated annual production levels and allocates overhead costs on that basis. For product shipped with risk of return, displays and packaging materials normally included in the value of the inventory, which the Company does not expect to recover, are expensed when the product is initially shipped to the customer. Inventory is reviewed for obsolescence at least on a quarterly basis, and where identified, the excess of carrying amount over net realizable value is expensed to cost of goods sold. Management's estimate of inventory not reasonably expected to be realized in cash during the normal operating cycle is classified as non-current inventory.

INTANGIBLE ASSETS

Intangible assets, including patents, registered trademarks, computer software, and website development costs, are carried at cost less accumulated amortization. Gains or losses arising from the impairment or disposal of individual assets are recognized in earnings in the period of impairment or disposal.

During the year ended March 31, 2011, the Company reviewed the useful lives and consumption patterns of amortization applied to intangible assets. As a result of the review, Afexa has prospectively revised the rates and methods of amortization applied to certain of these items. The impact of the changes to the consolidated statement of loss and comprehensive loss during the year ended March 31, 2011 was not significant. The change in amortization rates is presented below:

	Twelve Months Ended March 31, 2011	Six Months Ended March 31, 2010 and Twelve Months Ended September 30, 2009
Patents	20 years straight-line	20 years straight-line
Computer software	3 years straight-line	50%, declining balance
Website development	Straight-line over the estimated life	Straight-line over the estimated life
Registered trademarks	10 years straight-line	10 years straight-line

PROPERTY AND EQUIPMENT

Property and equipment, including equipment under capital leases, are carried at cost less accumulated amortization. Gains and losses arising on the disposal of individual assets are recognized in earnings in the year of disposal.

During the year ended March 31, 2011, the Company reviewed the useful lives and consumption patterns of amortization applied to property and equipment. As a result of the review, Afexa has prospectively revised the rates and methods of amortization applied to certain of these items. The impact of the changes to the consolidated statement of loss and comprehensive loss during the year ended March 31, 2011 was not significant. The change in amortization rates is presented below:

	Twelve Months Ended March 31, 2011	Six Months Ended March 31, 2010 and Twelve Months Ended September 30, 2009
Building and building improvements	15 to 25 years straight-line	4 – 10%, straight-line
Lab equipment	5 to 10 years straight-line	20%, declining balance
Furniture and equipment	5 years straight-line	20 – 30%, declining balance
Computer hardware	4 years straight-line	20%, declining balance
Leasehold improvements	Straight-line over term of lease	Straight-line over term of lease

The costs for periodic repairs and maintenance are expensed to the extent the expenditures serve only to restore the assets to their normal operating condition without enhancing the service potential or extending their useful lives.

LEASES

Leases entered into by the Company in which substantially all of the benefits and risks of ownership are transferred to the Company are recorded as capital leases and classified as property and equipment and obligations under capital lease. Obligations under capital lease reflect the present value of future lease payments, discounted at an appropriate interest rate, and are reduced by lease payments net of imputed interest. Assets under capital leases are amortized based on the estimated useful lives of the assets. All other leases are classified as operating leases and leasing costs are expensed in the period in which they are incurred. Lease inducements received by the Company are deferred and amortized on a straight-line basis over the term of the lease as a reduction in rental expense.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs are charged to expense as incurred, net of related tax credits, unless a development project meets the Canadian GAAP criteria for deferral and amortization. Research and development costs include the following direct operating expenses: salaries and benefits, administration, contracting, consulting and professional fees.

Development costs are capitalized for clearly defined, technically feasible technologies which management intends on producing and promoting to an identified future market with existing or estimated future resources. The Company annually evaluates deferred development costs to consider whether these costs continue to meet criteria for deferral. The Company has not capitalized development costs during the periods presented.

GOVERNMENT ASSISTANCE

Government assistance related to research activities is recognized as a reduction in research and development expense in the year that the related expenditure is incurred. Government assistance related to capital expenditures is treated as a reduction of the cost of the applicable asset.

Investment tax credits relating to qualifying scientific research and experimental development expenditures that are recoverable in the current period are accounted for as a reduction in research and development expenses or as a reduction in property and equipment depending on the nature of the expenditure. Investment tax credits not recoverable in the current period are accrued provided there is reasonable assurance that the credits will be realized.

COMPREHENSIVE INCOME

Comprehensive income is the change in equity (net assets) of the Company, during a period, from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period, except those resulting from investments by owners and distributions to owners. The Company does not have other comprehensive income, and accordingly, total comprehensive income and net earnings are equal.

FINANCIAL INSTRUMENTS

On initial measurement, all financial assets are classified as held-to-maturity, loans and receivables, held-for-trading or available-for-sale. All financial liabilities are classified as either held-for-trading or other financial liabilities. The Company's financial instruments are classified as follows:

- cash as held-for-trading;
- accounts receivable as loans and receivables;
- accounts payable and accruals and other long-term liabilities as other liabilities.

Subsequent measurement depends on initial classification. Financial instruments classified as loans and receivables are recorded at amortized cost using the effective interest rate method. All of the Company's financial liabilities are classified as other liabilities and are measured at amortized cost based on the effective interest rate method. Interest income (expense) recognized under the effective interest rate method is included (deducted) in net earnings in the period it arises.

Transaction costs for revolving debt obligations that are directly attributable to the acquisition or issuance of the financial liability are expensed by the Company. Transaction costs for long-term debt obligations are applied against the fair value of the liability when issued and amortized to interest expense using the effective interest rate method.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company evaluates the carrying value of long-lived assets, including property and equipment, intangible assets and other assets subject to amortization, for potential impairment when events and circumstances warrant a review. Factors that the Company considers important which could trigger an impairment review include, but are not limited to, significant underperformance relative to historical or projected future operating results, significant changes in the manner of use of the asset or the overall strategy of the business, significant negative industry or economic trends, a significant decline in the Company's share price for a sustained period and the Company's market capitalization relative to the net book value of its assets and liabilities. These factors could affect the expected cash flows of the related long-lived asset.

Impairment of non-monetary long-lived assets is recognized when the carrying amount of an asset may not be recoverable. Recoverability is determined by comparing the carrying amount of the asset to the undiscounted future cash flows expected from use and eventual disposition of the asset. When the carrying amount of the asset is greater than the undiscounted future cash flows, the excess of carrying value over its fair value is recorded as a charge to earnings.

EARNINGS PER SHARE

The computation of basic earnings per share has been calculated by dividing net earnings by the weighted average number of common shares outstanding during the period.

Diluted earnings per share reflect the potential dilution that would occur if stock options were exercised. The computation of diluted earnings per share has been calculated by dividing net earnings available to common shareholders by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding arising from the exercise of potentially dilutive stock options outstanding during the period. The Company uses the treasury method for outstanding options which assumes that the use of proceeds that could be obtained upon exercise of options in computing diluted earnings per share are used to purchase the Company's common shares at the average market price during the period.

INCOME TAXES

Income taxes have been accounted for using the liability method of tax allocation. Under this method, future tax assets and liabilities are determined based on differences between the accounting and income tax bases of an asset or liability. These are measured using the substantively enacted tax rates, regulations and laws of Canadian, United States, and Swiss tax jurisdictions that are anticipated to be in effect when the differences are expected to reverse.

STOCK-BASED COMPENSATION PLANS

The Company applies the fair value method of accounting for its stock-based compensation. The grant date fair value of stock options is estimated using the Black-Scholes option pricing model. Stock-based compensation cost is recognized on a straight-line basis over the expected vesting period of the related instrument. Any consideration paid upon exercise of stock options is recorded as an increase in share capital and the recorded fair value of the related stock option is reclassified from contributed surplus to share capital.

The Company has a Deferred Share Unit ("DSU") plan, under which participants are eligible to receive an equivalent cash value of the common shares at a future date, subject to certain conditions. The value of the DSU is equal to the share price at the date of grant. Compensation expense is recognized as stock-based compensation on the date of grant as no vesting periods apply. Changes in the amount of the liability due to share price changes after the initial grant date are recognized as stock-based compensation expense in the period in which the changes occur.

The Company also has a Restricted Share Unit ("RSU") plan under which participants are eligible to receive an equivalent cash value of common shares, at a future date subject to certain conditions. The value of the RSU is equal to the share price at the date of grant. In the case of RSUs granted for a prior service period, the compensation cost will be recognized in the period the RSU is granted. In the case of RSUs granted for current or future service periods, the fair value of the grant is based on the intrinsic value of the units and compensation cost is recognized over the expected vesting period of the stock-based compensation. Changes in the amount of the liability due to share price changes are recognized as stock-based compensation expense in the period in which the changes occur.

3. FUTURE ACCOUNTING STANDARDS

CONVERGENCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

Effective for fiscal years beginning on or after January 1, 2011, IFRS will replace GAAP for Canadian publicly accountable enterprises. Afexa will implement these standards on April 1, 2011.

In accordance with IFRS, Afexa will be required to report its results commencing with its fiscal year ending March 31, 2012, with the quarter ending June 30, 2011 being the first set of consolidated financial statements prepared under IFRS. Comparative figures for the quarter ended June 30, 2010 will be presented, including an opening balance sheet as at April 1, 2010 reconciled from current Canadian GAAP to IFRS. For the year ended March 31, 2011 and comparative six-month period ended March 31, 2010, Afexa has continued to report its results in accordance with Canadian GAAP.

Although the conceptual framework of IFRS is similar to that of Canadian GAAP, there are some significant differences on recognition, measurement and disclosure that are being addressed during the Company's implementation plan.

Most adjustments required on transition to IFRS will be made by Afexa retrospectively against opening retained earnings on April 1, 2010. Transitional adjustments relating to those standards, where restatement of comparative figures is not required, will be made on the first day of the fiscal year of adoption being April 1, 2011 for Afexa.

IFRS 1, First-time Adoption of International Financial Reporting Standards, applies only at the time of changeover to IFRS. This standard requires first-time adopters to select accounting policies that comply with each pronouncement in effect at the start of its first IFRS reporting period, being April 1, 2011 for Afexa, and retrospectively apply those policies as if they were always in effect. However, IFRS 1 provides a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS.

The International Accounting Standards Board ("IASB") currently has several projects underway in its work plan with anticipated completion dates in calendar years 2011 and 2012. These projects are expected to result in new or amended IFRS pronouncements. The Company will continue to monitor standard developments issued by IASB and regulatory developments issued by the Canadian Securities Administrators and assess their impact on the Company's first and subsequent IFRS reporting periods.

Differences between Canadian GAAP and IFRS may have a significant impact on the Company's consolidated financial statements; however, the Company has not yet fully quantified the impact to its financial position or results of its operations.

4. ACCOUNTS RECEIVABLE

	March 31, 2011	March 31, 2010
Trade receivables	\$ 1,210	\$ 1,723
Allowance for doubtful accounts	–	(33)
	1,210	1,690
Other receivables	233	552
Discount and incentive provisions	(4,261)	(5,208)
Return allowances	(393)	(1,053)
Other provisions	(7)	(9)
	(3,218)	(4,028)
Net credit balances classified to accounts payable and accruals	3,986	5,026
	\$ 768	\$ 998

Trade receivables are non-interest bearing and are generally on 30-day terms. In cases when discount and incentive provisions and return allowances for customers exceed invoice balances due from the same customer, the credit customer balance is reclassified to accounts payable and accruals.

The Company identifies impairment of trade receivables through a review of specific accounts and provides an allowance for doubtful accounts based on the excess of their carrying value over their estimated realizable amount. After all efforts of collection have failed, the accounts receivable balance not collected is written off against the allowance for doubtful accounts. The Company recorded the following activity in its allowance for doubtful accounts for the periods presented:

	12 Months Ended March 31, 2011	6 Months Ended March 31, 2010	12 Months Ended September 30, 2009
Balance, beginning of period	\$ 33	\$ 78	\$ 58
Provision for doubtful accounts	11	78	80
Recovery	(11)	(47)	(23)
Amounts written off as uncollectible	(33)	(76)	(37)
Balance, end of period	\$ –	\$ 33	\$ 78

The aging analysis of trade receivables is as follows:

	Total	< 30 days	30 - 60 days	60 - 90 days	> 90 days
March 31, 2011	\$ 1,210	\$ 893	\$ 352	\$ 9	\$ (44)
March 31, 2010	1,690	150	832	667	41

The credit balance for trade receivables aged over 90 days in fiscal 2011 relates to customer overpayments. As at March 31, 2011, two customers (March 31, 2010 – one customer) represented 61% (March 31, 2010 – 38%) of accounts receivable. The Company has pledged trade receivables as collateral under the terms of the demand operating line of credit (note 9).

5. INVENTORY

	March 31, 2011	March 31, 2010
Finished goods	\$ 4,689	\$ 5,669
Work-in-progress	6,991	3,559
Raw and packaging materials	138	204
Products shipped with risk of return	138	487
	11,956	9,919
Less non-current portion	–	243
	\$ 11,956	\$ 9,676

The cost of inventory recognized as an expense and included in cost of goods sold, prior to overhead variances, for the year ended March 31, 2011 was \$8,324 (six months ended March 31, 2010 – \$9,006 and twelve months ended September 30, 2009 – \$10,758). Included in cost of goods sold in the year ended March 31, 2011 were write-downs of inventory totalling \$498 (six months ended March 31, 2010 – \$1,030 and twelve months ended September 30, 2009 – \$1,725). No inventory write-downs recognized in previous periods were reversed in the current year (six months ended March 31, 2010 and twelve months ended September 30, 2009 – \$nil).

Included in finished goods inventory are promotional products not held for sale of \$140 (March 31, 2010 – \$36). No amounts were included in raw and packaging materials inventory as promotional products not held for sale (March 31, 2010 – \$14).

The Company has pledged inventory as collateral under the terms of the demand operating line of credit (note 9).

6. INCOME TAXES

Income taxes differ from the amounts that would be computed by applying the federal and provincial income tax rates as follows:

	12 Months Ended March 31, 2011	6 Months Ended March 31, 2010	12 Months Ended September 30, 2009
Provision for income taxes at statutory rates of 28.9% (March 31, 2010 – 30.0% and September 30, 2009 – 30.4%)	\$ (349)	\$ 1,292	\$ 683
Increase (decrease) resulting from:			
Income tax related to previous periods	(330)	18	(73)
Non-deductible amounts	60	47	194
Tax rate differences of foreign subsidiaries	12	30	(613)
Non-deductible stock-based compensation	149	68	164
Change in valuation allowance	18	(11)	322
Other	59	79	266
Income tax expense at effective tax rate of 31.6% (March 31, 2010 – 35.3% and September 30, 2009 – 42.0%)	\$ (381)	\$ 1,523	\$ 943

The tax effects of temporary differences that give rise to significant portions of the future income tax assets and future income tax liabilities are presented below:

	March 31, 2011	March 31, 2010
Future income tax assets:		
Non-capital losses carried forward (expiring 2014 to 2031)	\$ 4,649	\$ 3,247
Accounts receivable	76	252
Deferred revenue	356	304
Amounts not tax deductible in the current period	237	143
Other tax assets	33	91
	5,351	4,037
Future income tax liabilities:		
Property and equipment	51	199
Scientific Research & Experimental Development ("SRED") income tax credit claim	172	52
Long-term debt	–	4
	223	255
Net future income tax asset	5,128	3,782
Valuation allowance	4,529	3,113
	\$ 599	\$ 669

Presented in the consolidated financial statements as follows:

	March 31, 2011	March 31, 2010
Future income tax assets – current	\$ 538	\$ 738
Future income tax assets – non-current	61	–
Future income tax liabilities – non-current	–	(69)
	\$ 599	\$ 669

The Company reviews all available positive and negative evidence to evaluate the recoverability of future tax assets. This includes a review of the Company's cumulative losses in recent years, the carryforward period related to the tax losses, and the tax planning strategies available to the Company. The Company has unused tax loss carryforwards in the United States of approximately 3.1 million United States dollars, which expire between 2027 and 2031, and are available to reduce taxable income in future years. The Company has unused tax loss carryforwards in Switzerland of approximately 32.4 million Swiss Francs, which are available to reduce taxable income in future years which expire between 2014 and 2018. The benefit of these losses has not been recorded in these consolidated financial statements. They have been fully offset by a valuation allowance.

7. INTANGIBLE ASSETS

	Cost	Accumulated Amortization	Net Book Value
March 31, 2011			
Patents	\$ 1,766	\$ 751	\$ 1,015
Website development	258	55	203
Computer software	360	207	153
Registered trademarks	222	83	139
	\$ 2,606	\$ 1,096	\$ 1,510
March 31, 2010			
Patents	\$ 1,642	\$ 672	\$ 970
Website development	237	31	206
Computer software	578	361	217
Registered trademarks	183	72	111
	\$ 2,640	\$ 1,136	\$ 1,504

During the twelve months ended March 31, 2011, the Company recorded intangible asset amortization expense of \$312 (six months ended March 31, 2010 – \$99 and twelve months ended September 30, 2009 – \$203) and additions to intangible assets of \$466 (six months ended March 31, 2010 – \$112 and twelve months ended September 30, 2009 – \$465). For the twelve months ended March 31, 2011, the Company conducted a review of the carrying value of intangible assets and has recorded an impairment of \$148 (six months ended March 31, 2010 – \$nil and twelve months ended September 30, 2009 – \$85). Impairment is recognized when management believes the carrying value of the asset exceeds the expected undiscounted future cash flows generated from that asset.

Additions of \$466 for the twelve months ended March 31, 2011 were comprised of \$75 of acquired intangible assets (six months ended March 31, 2010 – \$2 and twelve months ended September 30, 2009 – \$61) and \$391 for developed intangible assets (six months ended March 31, 2010 – \$110 and twelve months ended September 30, 2009 – \$404).

8. PROPERTY AND EQUIPMENT

	Cost	Accumulated Amortization	Net Book Value
March 31, 2011			
Building	\$ 11,447	\$ 2,353	\$ 9,094
Lab equipment	1,438	562	876
Land under capital lease	616	–	616
Furniture and equipment	932	413	519
Computer hardware	424	237	187
Leasehold improvements	357	58	299
	\$ 15,214	\$ 3,623	\$ 11,591
March 31, 2010			
Building	\$ 11,439	\$ 1,889	\$ 9,550
Lab equipment	1,526	429	1,097
Land under capital lease	616	–	616
Furniture and equipment	950	353	597
Computer hardware	513	215	298
Leasehold improvements	355	21	334
	\$ 15,399	\$ 2,907	\$ 12,492

For the twelve months ended March 31, 2011, the Company recorded a loss on disposal of property and equipment of \$83 (six months ended March 31, 2010 – \$27 and twelve months ended September 30, 2009 – \$11) related to property and equipment no longer in use.

During the twelve months ended March 31, 2011, the Company recorded property and equipment amortization expense of \$1,067 (six months ended March 31, 2010 – \$635 and twelve months ended September 30, 2009 – \$1,108), of which \$nil (six months ended March 31, 2010 – \$nil and twelve months ended September 30, 2009 – \$3) is related to amortization on equipment under capital lease.

The Company has pledged land and building as collateral under the terms of the demand operating line of credit (note 9).

9. LONG-TERM DEBT AND OTHER CREDIT FACILITIES

LONG-TERM DEBT

	March 31, 2011	March 31, 2010
Term mortgage with interest at the bank's prime lending rate plus 1.25%. During the year ended March 31, 2011, the Company fully repaid the mortgage.	\$ –	\$ 5,146
Financing loan bearing interest at 7.39%. The loan was fully repaid during the year ended March 31, 2011.	–	108
	–	5,254
Less: financing charge	–	16
	–	5,238
Less: current portion	–	710
	\$ –	\$ 4,528

DEMAND OPERATING LINE OF CREDIT

During the year ended March 31, 2011, Afexa entered into a new credit facility agreement that consists of a demand operating line of credit of \$15,000, with interest at the bank's prime lending rate plus 0.75%. The portion of the line of credit that is available to Afexa is based on: (i) 65% of the Edmonton, Alberta head office and research centre's appraised value to a maximum limit of \$6,750 (maximum limit to be reduced annually based on an amortization period of 15 years), (ii) 75% of accounts receivable aged less than 90 days, and (iii) 50% of finished goods inventory to a maximum limit of \$4,125. The credit facility is collateralized by a General Security Agreement constituting a first ranking security interest in all personal property of the Company and a demand collateral mortgage constituting a first fixed charge on the Company's head office and research facility. The credit facility was undrawn at March 31, 2011.

10. OBLIGATIONS UNDER CAPITAL LEASE

	March 31, 2011	March 31, 2010
Land under capital lease at an imputed interest rate of 6.75%. The Company plans to purchase the land on or before November 15, 2015 for the stated amount of	\$ 1,155	\$ 1,155
Less: imputed interest charges	312	366
	843	789
Less: current portion	-	-
Long-term portion of obligations under capital lease	\$ 843	\$ 789

Interest expense on obligations under capital lease for the year ended March 31, 2011 were \$54 (six months ended March 31, 2010 – \$32 and twelve months ended September 30, 2009 – \$48).

11. CUSTOMER DEPOSITS

The Company has received customer deposits totaling \$1,628 (March 31, 2010 – \$2,094) for product shipped with risk of return. If the risk for the remaining product shipped with the risk of return is substantially eliminated, the revenue from the product shipment will be recognized and the liability for the customer deposit eliminated. If the product is returned and cash payment has been made, the customer is entitled to a refund of the deposit. There is no certainty on the amount of deposits that will be recognized as revenue or may require refund.

12. SHARE CAPITAL

(a)

Authorized:

Unlimited number of voting common shares with no par value.

Unlimited number of preferred shares with no par value, voting rights to be determined prior to first issue.

Issued and Outstanding:

	Number of Shares	Share Capital
Voting common shares:		
Balance, October 1, 2009	104,912,918	\$ 23,101
Share repurchase under normal course issuer bid	(408,248)	(90)
Balance, March 31, 2010	104,504,670	23,011
Share repurchase under normal course issuer bid	(1,309,618)	(288)
Exercise of options	7,500	4
Balance, March 31, 2011	103,202,552	\$ 22,727

On October 14, 2009, the Company received approval from the Toronto Stock Exchange ("TSX") to renew its normal course issuer bid ("NCIB") to repurchase its common shares from the market. Effective October 18, 2010, the Company again renewed its NCIB with the TSX. Under the renewed NCIB, the Company may acquire up to 5,212,941 common shares, until the renewed NCIB expires on October 17, 2011.

During the year ended March 31, 2011, 1,309,618 common shares were repurchased (six months ended March 31, 2010 – 408,248 and twelve months ended September 30, 2009 – 2,810,580) pursuant to the Company's NCIB at a total cost of \$689 or \$0.53 per common share (March 31, 2010 – \$278 or \$0.68 and September 30, 2009 – \$1,115 or \$0.40). All common shares repurchased were cancelled prior to March 31, 2011, resulting in a reduction in share capital of \$288 (six months ended March 31, 2010 – \$90 and twelve months ended September 30, 2009 – \$619) and a reduction in contributed surplus of \$401 (six months ended March 31, 2010 – \$188 and twelve months ended September 30, 2009 – \$496) representing the consideration in excess of stated capital.

(b) Stock Option Plan

The Company has an incentive stock option plan for certain employees, contractors, officers and directors. Options issued under the plan vest over a period which generally extends between four and five years. Options vest annually in proportion to the number of vesting periods, based on the anniversary date of the options granted. The total number of common shares reserved for issuance under the stock option plan shall not exceed 22,170,442. At March 31, 2011, 5,582,036 (March 31, 2010 – 7,036,766) common shares remain reserved for issuance under the stock option plan.

The continuity of the Company's outstanding and exercisable options is as follows:

	12 Months Ended March 31, 2011		6 Months Ended March 31, 2010	
	Number of Options Outstanding	Weighted Average Exercise Price	Number of Options Outstanding	Weighted Average Exercise Price
Outstanding, beginning of period	5,658,684	\$ 0.78	4,035,000	\$ 0.93
Exercised	(7,500)	0.40	–	–
Granted	2,290,980	0.51	1,943,684	0.68
Expired, cancelled, and forfeited	(836,250)	1.54	(320,000)	1.99
Outstanding, end of period	7,105,914	\$ 0.60	5,658,684	\$ 0.78
Exercisable, end of period	2,143,171	\$ 0.66	1,546,250	\$ 1.10

The following table summarizes information about stock options outstanding and exercisable at March 31, 2011:

Exercise Price	Number Outstanding	Weighted Average Remaining Term (In Years)	Options Vested	Options Not Vested
\$ 0.40	982,500	4.0	492,500	490,000
\$ 0.46	200,000	5.2	–	200,000
\$ 0.48	600,000	3.4	300,000	300,000
\$ 0.51	2,055,980	5.9	–	2,055,980
\$ 0.64	1,118,750	5.0	300,000	818,750
\$ 0.68	1,175,000	2.8	705,000	470,000
\$ 0.76	698,684	4.9	174,671	524,013
\$ 1.24	220,000	1.7	132,000	88,000
\$ 1.25	25,000	2.4	15,000	10,000
\$ 4.04	30,000	0.4	24,000	6,000
	7,105,914		2,143,171	4,962,743

During the year ended March 31, 2011, \$514 (six months ended March 31, 2010 – \$224 and twelve months ended September 30, 2009 – \$541) was recognized as stock-based compensation expense related to options with a corresponding increase to contributed surplus.

The actual weighted average fair value of the options issued during the year ended March 31, 2011 was \$0.28 per common share (six months ended March 31, 2010 – \$0.41 per common share and twelve months ended September 30, 2009 – \$0.22 per common share) as determined using the Black-Scholes option pricing model. The following weighted average assumptions were utilized to calculate the fair value:

	12 Months Ended March 31, 2011	6 Months Ended March 31, 2010	12 Months Ended September 30, 2009
Total options granted	2,290,980	1,943,684	1,285,000
Weighted average exercise price	\$ 0.51	\$ 0.68	\$ 0.40
Risk-free interest rate	2.44%	2.25%	1.50%
Expected life	3.8 years	4.0 years	3.7 years
Vesting period	3.9 years	3.9 years	4.0 years
Expected annual volatility	76%	81%	77%
Expected dividend yield	–	–	–

(c) Deferred Share Units

	12 Months Ended March 31, 2011	6 Months Ended March 31, 2010
Balance, beginning of period	251,246	132,848
Issued	323,401	118,398
Outstanding and exercisable, end of period	574,647	251,246

During the year ended March 31, 2011, the Company issued DSUs, with intrinsic value of \$165 (six months ended March 31, 2010 – \$63 and twelve months ended September 30, 2009 – \$104), and recognized stock-based compensation expense of \$154 (six months ended March 31, 2010 – \$30 and twelve months ended September 30, 2009 – \$157), with a corresponding increase to accounts payable and accruals. No DSUs were redeemed in the year ended March 31, 2011 or the six months ended March 31, 2010. During the twelve months ended September 30, 2009, 110,016 DSUs were redeemed at an average value of \$0.47 per DSU, resulting in a cash payment of \$52 on redemption. All outstanding DSUs are considered vested at the date of grant. As at March 31, 2011, \$287 (March 31, 2010 – \$133) was recorded in accounts payable and accruals related to the outstanding DSUs.

(d) Restricted Share Units

	12 Months Ended March 31, 2011	6 Months Ended March 31, 2010
Balance, beginning of period	743,421	175,000
Issued	792,018	568,421
Outstanding, end of period	1,535,439	743,421
Exercisable, end of period	–	–

During the year ended March 31, 2011, the Company issued RSUs with fair market value of \$396 (six months ended March 31, 2010 – \$301 and twelve months ended September 30, 2009 – \$65) and recognized stock-based compensation expense of \$153 (six months ended March 31, 2010 – \$32 and twelve months ended September 30, 2009 – \$136), with a corresponding increase to accounts payable and accruals or other long-term liabilities. As at March 31, 2011, the RSUs outstanding had a vesting period that extends between six months and three years. As at March 31, 2011, \$321 (March 31, 2010 – \$168) was recorded in accounts payable and accruals and other long-term liabilities related to the outstanding RSUs.

13. CONTRIBUTED SURPLUS

	12 Months Ended March 31, 2011	6 Months Ended March 31, 2010	12 Months Ended September 30, 2009
Balance, beginning of period	\$ 8,260	\$ 8,224	\$ 8,179
Stock-based compensation recognition of fair value of stock options granted	514	224	541
Recognition of fair value of stock options exercised	(2)	–	
Consideration in excess of stated capital from the normal course issuer bid (note 13a)	(401)	(188)	(496)
Balance, end of period	\$ 8,371	\$ 8,260	\$ 8,224

14. (LOSS) EARNINGS PER SHARE

	12 Months Ended March 31, 2011	6 Months Ended March 31, 2010	12 Months Ended September 30, 2009
Net (loss) earnings (numerator for basic and diluted earnings per share)	\$ (828)	\$ 2,789	\$ 1,301
Weighted average number of common shares outstanding	104,228,679	104,870,538	106,434,436
Dilutive effect of stock options	–	943,255	12,040
Diluted weighted average number of common shares outstanding	104,228,679	105,813,793	106,446,476
(Loss) earnings per share – basic and diluted	\$ (0.01)	\$ 0.03	\$ 0.01

15. AMORTIZATION

	12 Months Ended March 31, 2011	6 Months Ended March 31, 2010	12 Months Ended September 30, 2009
Intangible assets (note 7)	\$ 312	\$ 99	\$ 203
Property and equipment (note 8)	1,067	635	1,108
	\$ 1,379	\$ 734	\$ 1,311

16. INTEREST AND BANK CHARGES

	12 Months Ended March 31, 2011	6 Months Ended March 31, 2010	12 Months Ended September 30, 2009
Interest on long-term debt	\$ 166	\$ 113	\$ 259
Other interest and bank charges	123	67	141
	\$ 289	\$ 180	\$ 400

17. RELATED PARTY TRANSACTIONS

Included in general and administration expenses during the twelve months ended March 31, 2011, were management and consulting fees of \$32 (six months ended March 31, 2010 and twelve months ended September 30, 2009 – \$nil) incurred from a company controlled by a director of Afexa.

Until October 2008, the Company had as part of its management team an individual who was also related to the principal owners of a vendor. During the twelve months ended September 30, 2009, the Company expensed \$56 in sales and marketing costs for the period in which the related party relationship existed.

All transactions with related parties occurred in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

18. CAPITAL DISCLOSURES

The Company's objective in managing capital is to safeguard the entity's ability to continue as a going concern so that it can continue to develop and commercialize evidence-based natural medicines to increase shareholder value. Capital is defined by the Company as shareholders' equity, long-term debt, and obligations under capital lease and is as follows:

	March 31, 2011	March 31, 2010
Shareholders' equity	\$ 24,794	\$ 25,795
Current portion of long-term debt	–	710
Long-term debt	–	4,528
Obligations under capital lease	843	789
Total capital	\$ 25,637	\$ 31,822

The Company has externally imposed capital requirements as governed through its demand operating line of credit. These requirements are to ensure the Company continues to operate in the normal course of business and to ensure the Company manages its debt relative to tangible net worth. These capital requirements are congruent with the Company's management of capital. The Company met all externally imposed capital requirements at the end of the period.

The Company monitors capital on the basis of the current ratio and debt to tangible net worth ratio which are both financial covenants of the credit facility agreement. The current ratio is calculated as current assets (as shown on the balance sheet) over current liabilities (as shown on the balance sheet) and is to be maintained above 1.25:1. At March 31, 2011, this ratio has decreased to 2.34:1 from the March 31, 2010 ratio of 2.42:1. The decrease in this ratio from March 31, 2010 is largely due to the decrease in cash related to early repayment of the long-term debt.

Debt to tangible net worth is calculated as total liabilities (as shown on the balance sheet) over tangible net worth. Tangible net worth is defined as the sum of share capital, contributed surplus and deficit less intangible assets and future tax assets. This ratio is to be maintained below 2.00:1. At March 31, 2011, this ratio was 0.47:1 (March 31, 2010 – 0.76:1). The improvement in this ratio can be attributed to the repayment of the term mortgage in the period.

19. FINANCIAL INSTRUMENTS

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments represents the amount that would be received from or paid to counterparties, calculated at the reporting date, to settle these instruments. The carrying values of cash, accounts receivable, and accounts payable and accruals approximate their estimated fair value due to the short-term maturity of these instruments.

MANAGEMENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Company does not use financial derivatives. There has been no change with respect to the Company's overall risk exposure during the year ended March 31, 2011.

MARKET RISK

(a) Interest Rate Risk

The Company's mortgage was subject to interest rate cash flow risk as the required cash flow to service the debt will fluctuate as a result of the changing bank prime lending rate. The outstanding term mortgage with the lender was fully repaid during the year ended March 31, 2011. The Company has also entered into a credit facility agreement with a new bank that consists of a demand operating line of credit of \$15,000, with interest at the bank's prime lending rate plus 0.75%. No amounts have been drawn on the demand line of credit.

(b) Foreign Exchange Risk

The Company is currently not exposed to significant foreign currency risk as the assets and liabilities denominated in foreign currencies are minimal.

CREDIT RISK

The maximum exposure to credit risk of the Company as at March 31, 2011 is the carrying value of its financial assets. The Company manages credit risk by maintaining bank accounts with reputable financial institutions and only investing in securities that are highly rated, traded in active markets and capable of prompt liquidation.

The Company's exposure to credit risk related to accounts receivable arises from the possibility that a customer does not fulfil its obligations. This is minimized through a customer base predominantly comprised of well established retailers and wholesalers, a program of credit evaluation of new customers and limits on the amount of credit extended as deemed necessary. The Company performs continuous evaluation of its accounts receivable and records an allowance for doubtful accounts. The failure of a large customer would have a significant effect on the Company (note 4).

LIQUIDITY RISK

The Company's exposure to liquidity risk is dependent on the sale of inventory, collection of accounts receivable, purchasing commitments, and obligations or raising of funds to meet commitments and sustain operations. The Company's liquidity objective is to maintain the capacity to fund assets and repay liabilities in a timely and cost-effective manner under adverse market conditions and unforeseen events. This capacity primarily derives from the Company's earnings and ability to issue debt and equity instruments as well as its ability to generate liquidity from its balance sheet (convert assets, for example inventory, to cash).

The Company controls liquidity risk by managing working capital, cash flows and the availability of borrowing facilities. The Company's undiscounted financial liability contractual maturities, which include interest thereon, are as set out in the summary of contractual obligations. The Company does not anticipate that the timing and amounts of these existing contractual obligations will vary significantly from those shown in note 24. As at March 31, 2011, the Company has financial assets that are expected to generate sufficient cash inflows to meet cash outflows on financial liabilities.

20. CHANGE IN NON-CASH OPERATING WORKING CAPITAL

	12 Months Ended March 31, 2011	6 Months Ended March 31, 2010	12 Months Ended September 30, 2009
Accounts receivable	\$ 230	\$ 3,843	\$ 1,143
Inventory	(2,280)	2,735	(1,310)
Prepaid expenses and deposits	32	247	(512)
Income taxes receivable	(4,615)	1,861	358
Accounts payable and accruals	(1,951)	1,764	(1,574)
Customer deposits	(466)	1,960	(4,121)
	\$ (9,050)	\$ 12,410	\$ (6,016)

21. SEGMENTED INFORMATION

The Company operates in one operating segment – biopharmaceutical products. Management assesses performance and makes resource decisions based on the consolidated results of operations of this operating segment. Substantially all of the operations of the Company are directly engaged in or support this operating segment. Other operations are not material and share many of the same economic and operating characteristics as biopharmaceutical products and, accordingly, they are included with biopharmaceutical products for purposes of segment reporting.

The Company derives significant revenue from certain customers. During the twelve months ended March 31, 2011 four Canadian customers (six months ended March 31, 2010 – three Canadian customers and twelve months ended September 30, 2009 – four Canadian customers) accounted for \$29,575 or 75% (six months ended March 31, 2010 – \$20,228 or 59% and twelve months ended September 30, 2009 – \$35,992 or 76%) of the Company's consolidated revenue. For the twelve months ended March 31, 2011 and six months ended March 31, 2010, substantially all of the Company's revenue was generated in Canada. During the twelve months ended September 30, 2009, \$2,359 of the Company's revenue was earned in the United States. Geographic information about the Company's revenue is based on the location of the contracting organization.

All of the Company's property and equipment is located in Canada.

22. EMPLOYEE SAVINGS PLAN

The Company matches voluntary contributions made by employees to their Registered Retirement Savings Plans to a maximum of 3% of earnings for each employee. Contributions made by the Company during the year ended March 31, 2011 were \$277 (six months ended March 31, 2010 – \$133 and twelve months ended September 30, 2009 – \$227).

23. GOVERNMENT ASSISTANCE

During the twelve months ended March 31, 2011, the Company recorded the benefit of investment tax credits of \$1,169 (six months ended March 31, 2010 - \$184 and twelve months ended September 30, 2009 – \$542) as a reduction in research and development expenses. In fiscal 2011 the Company received audit confirmation on certain investment tax credits owing to the Company, and revised its estimates of the total amount of realizable investment tax credits from fiscal years 2008 to present. This change in estimate resulted in a \$530 increase in investment tax credits related to prior years which have reduced research and development expenses for the year ended March 31, 2011.

The Company also recorded a reduction in property and equipment of \$180 for the year ended March 31, 2011 related to investment tax credits (six months ended March 31, 2010 and twelve months ended September 30, 2009 – \$nil). Of this amount, \$171 relates to revised estimates of realizable investment tax credits on property and equipment acquired in previous years.

During the twelve months ended March 31, 2011, the Company also recorded a reduction of research and development expense related to government assistance in connection with research activities of \$232 (six months ended March 31, 2010 – \$172 and twelve months ended September 30, 2009 - \$243).

24. COMMITMENTS AND CONTINGENCIES

At March 31, 2011, the Company's contractual obligations for the next five years and thereafter are as follows:

Commitments	2012	2013	2014	2015	2016	Thereafter	Total
Obligations under capital lease	\$ –	\$ –	\$ –	\$ –	\$ 1,155	\$ –	\$ 1,155
Leased premises	185	175	175	177	179	775	1,666
Operating lease payments, sponsorships, and other	1,413	144	–	–	–	–	1,557
	\$ 1,598	\$ 319	\$ 175	\$ 177	\$ 1,334	\$ 775	\$ 4,378

The Company has entered into agreements to lease premises in Toronto and Montreal, Canada. These leases expire at various dates up to February 29, 2020. The Company also has various operating leases, sponsorship agreements and other commitments made in the normal course of business.

In addition to the contractual obligations noted in the above table, the Company signed a commitment on May 26, 2010 to purchase a minimum of \$3,000 of inventory from a contract manufacturer organization ("CMO") over a three-year period to encourage the CMO to invest in specific equipment required to produce the Company's products. As at March 31, 2011, the remaining commitment to the CMO was \$2,909. On March 24, 2011, the Company also entered into an agreement with another CMO to develop a new product. If the Company proceeds in launching this product, the contractual terms provide for a commitment of \$1,210.

The Company has financial assets that are expected to generate sufficient cash inflows to meet cash outflows on financial liabilities.

CONTINGENCIES

At March 31, 2011, the Company was involved in legal claims in the normal course of operations. Management has reviewed the claims and believes the ultimate resolution of such legal claims will not have a material adverse effect on the Company's financial position and that it has adequately provided, where required, for these legal claims.

25. COMPARATIVE FIGURES

Certain of the comparative figures were reclassified from statements previously presented to conform to the current period presentation.