



Afexa Life Sciences Inc.

Q2

**SECOND
QUARTER
REPORT**

**CONSOLIDATED FINANCIAL
STATEMENTS (UNAUDITED)**

For the three and six months ended
September 30, 2010

Consolidated Balance Sheets

(in thousands of Canadian dollars)
(unaudited)

As at	September 30, 2010	March 31, 2010
ASSETS		
Current		
Cash	\$ 4,189	\$ 17,685
Accounts receivable	6,663	998
Inventory	11,620	9,676
Prepaid expenses and deposits	676	502
Income taxes receivable	2,251	239
Future income tax assets	544	738
	25,943	29,838
Intangible assets	1,666	1,504
Property and equipment	12,212	12,492
Inventory, non-current	-	243
	\$ 39,821	\$ 44,077
Liabilities		
Current		
Accounts payable and accruals	\$ 9,776	\$ 9,531
Current portion of long-term debt	63	710
Customer deposits	1,718	2,094
	11,557	12,335
Obligations under capital lease	816	789
Other long-term liabilities	325	381
Future income tax liabilities	153	69
Deferred revenue	-	180
Long-term debt	-	4,528
	12,851	18,282
Shareholders' Equity		
Share capital (note 4)	22,957	23,011
Contributed surplus (note 5)	8,440	8,260
Deficit	(4,427)	(5,476)
	26,970	25,795
	\$ 39,821	\$ 44,077

Contingencies (note 12)

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statements of Earnings and Comprehensive Income and Deficit

(in thousands of Canadian dollars except per share amounts)
(unaudited)

	Three months ended September 30		Six months ended September 30	
	2010	2009	2010	2009
Revenue	\$ 19,189	\$ 15,557	\$ 20,947	\$ 21,751
Cost of goods sold	4,695	5,950	5,683	6,816
	14,494	9,607	15,264	14,935
Operating expenses				
General and administration	2,694	1,936	5,032	5,279
Sales and marketing	2,670	2,718	4,763	4,417
Research and development	1,295	886	2,541	1,815
Amortization (note 6)	305	355	688	681
Stock-based compensation (note 4)	279	298	427	658
Loss (gain) on foreign exchange	3	(218)	1	(413)
	7,246	5,975	13,452	12,437
Earnings before other items and income taxes	7,248	3,632	1,812	2,498
Other items				
Interest and bank charges (note 7)	162	79	242	173
Interest income	(11)	(12)	(28)	(56)
Impairment of intangible assets	4	58	8	66
Other expense	–	7	4	10
	155	132	226	193
Earnings before income taxes	7,093	3,500	1,586	2,305
Income tax expense (recovery)				
Current	1,989	845	259	662
Future	(20)	(127)	278	(19)
	1,969	718	537	643
Net earnings and comprehensive income	5,124	2,782	1,049	1,662
Deficit, beginning of period	(9,551)	(11,047)	(5,476)	(9,927)
Deficit, end of period	\$ (4,427)	\$ (8,265)	\$ (4,427)	\$ (8,265)
Earnings per share				
Basic	\$ 0.05	\$ 0.03	\$ 0.01	\$ 0.02
Diluted	\$ 0.05	\$ 0.03	\$ 0.01	\$ 0.02
Weighted average number of shares outstanding:				
Basic	104,414,056	105,138,899	104,459,115	105,240,241
Diluted	104,773,204	105,277,021	104,726,077	105,302,673

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)
(unaudited)

	Three months ended September 30		Six months ended September 30	
	2010	2009	2010	2009
Operating activities				
Net earnings and comprehensive income	\$ 5,124	\$ 2,782	\$ 1,049	\$ 1,662
Items not affecting cash:				
Stock-based compensation	279	247	427	607
Future income taxes	(20)	(127)	278	(19)
Amortization	305	355	688	681
Amortization of lease inducement	(6)	–	(13)	–
Accreted interest on long-term debt and land under capital lease	20	20	43	40
Impairment of intangible assets	4	58	8	66
Loss on disposal of property and equipment	–	7	4	10
	5,706	3,342	2,484	3,047
Change in non-cash operating working capital	(4,523)	(4,708)	(10,063)	(7,302)
Change in deferred revenue	(180)	–	(180)	–
Change in non-current inventory	108	8	243	20
Cash provided by (used in) operating activities	1,111	(1,358)	(7,516)	(4,235)
Investing activities				
Purchase of property and equipment	(137)	(627)	(320)	(672)
Purchase of intangible assets	(201)	(212)	(327)	(391)
Proceeds on disposal of property and equipment	–	5	3	23
Redemption of short-term investment	–	39	–	5,081
Cash (used in) provided by investing activities	(338)	(795)	(644)	4,041
Financing activities				
Repayment of long-term debt	(5,014)	(176)	(5,191)	(350)
Share purchase under normal course issuer bid	(146)	(148)	(146)	(168)
Issuance of share capital	1	–	1	–
Repayment of obligations under capital lease	–	(4)	–	(6)
Cash used in financing activities	(5,159)	(328)	(5,336)	(524)
Decrease in cash	(4,386)	(2,481)	(13,496)	(718)
Cash, beginning of period	8,575	5,976	17,685	4,213
Cash, end of period	\$ 4,189	\$ 3,495	\$ 4,189	\$ 3,495
Supplemental cash flow information:				
Interest paid	\$ 162	\$ 79	\$ 242	\$ 173
Interest received	11	12	32	56
Income taxes paid	1,410	254	3,256	1,018
Income taxes received	–	468	1,155	2,124
Property and equipment additions – included in accounts payable and accruals at period end	15	141	15	141

See accompanying Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

Six month period ended September 30, 2010

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

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Afexa Life Sciences Inc. ("Afexa" or "the Company") is a publicly owned company that develops and sells biopharmaceutical products. The Company 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.

In preparing consolidated financial statements in conformity with Canadian generally accepted accounting principles ("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.

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian GAAP on a basis consistent with those used in the preparation of the most recent annual consolidated financial statements, except as indicated in note 2. These unaudited interim consolidated financial statements do not include all the information and disclosures required for annual financial statements and should be read in conjunction with the Company's audited consolidated financial statements for the six months ended March 31, 2010. In management's opinion, these interim consolidated financial statements include all adjustments necessary to present fairly such interim financial information.

The consolidated statements of earnings and comprehensive income, and cash flows, for the six months ended September 30, 2010, are not indicative of results on an annual basis due to seasonal and short-term variations. Revenue from the Company's lead product is greater in the second and third quarters of the fiscal year. The sales of this product exhibit a seasonal pattern tied to the frequency and severity of colds and flu.

2. CHANGE IN ACCOUNTING ESTIMATES

During the six months ended September 30, 2010, the Company reviewed the useful lives and consumption patterns of amortization applied to long-lived intangible assets and 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. For the six months ended September 30, 2010, amortization on intangible assets and property and equipment have been recorded using the following methods and rates:

Patents	20 years straight-line
Computer software	3 years straight-line
Website development	3 to 5 years straight-line
Registered trademarks	10 years straight-line

Building and building improvements	15 to 25 years straight-line
Lab equipment	5 to 10 years straight-line
Furniture and equipment	5 years straight-line
Computer hardware	4 years straight-line
Leasehold improvements	Straight-line over term of lease

The impact of the above changes to the consolidated statement of earnings and comprehensive income during the six months ended September 30, 2010 was not significant.

Notes to the Consolidated Financial Statements

Six month period ended September 30, 2010

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

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 also need to be presented, including an opening balance sheet as at April 1, 2010 reconciled from current Canadian GAAP to IFRS. For the year ending March 31, 2011 and comparative year ended March 31, 2010, Afexa will continue 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 will be addressed during the Company's implementation plan.

The Company commenced its process to transition to IFRS and developed an implementation plan of five phases, which in certain cases will be completed concurrently. The five phases are: (1) preliminary diagnostic and scoping; (2) detailed evaluation and design; (3) solution development; (4) integration; and (5) post-implementation review. To date, the Company has completed the first phase and has commenced the second and third phases.

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 2010 and 2011. 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 IFRS reporting period.

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

4. SHARE CAPITAL

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.

(a) Issued and Outstanding:

	Number of shares	Share capital
Voting common shares:		
Balance, March 31, 2010	104,504,670	\$23,011
Share repurchase under normal course issuer bid	(247,106)	(55)
Exercise of options	1,250	1
Balance, September 30, 2010	104,258,814	22,957

Notes to the Consolidated Financial Statements

Six month period ended September 30, 2010

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

On October 14, 2009, the Company received approval from the Toronto Stock Exchange to renew its normal course issuer bid ("NCIB") to repurchase its common shares from the market. The NCIB allows the Company to acquire up to an additional 5,245,645 common shares until the renewed NCIB expires on October 15, 2010. During the six months ended September 30, 2010, 247,106 common shares were repurchased pursuant to the Company's NCIB for a total cost of \$146 or \$0.59 per common share. All common shares repurchased during the period were cancelled prior to September 30, 2010, resulting in an average carrying value of \$55 being allocated to share capital and \$91 being charged to contributed surplus, representing the consideration in excess of par value. Subsequent to September 30, 2010, the Company renewed its NCIB (note 14).

(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 September 30, 2010, 7,471,766 (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:

	6 months ended September 30, 2010	
	Number of options outstanding	Weighted average exercise price
Outstanding, beginning of period	5,658,684	\$ 0.78
Exercised	(1,250)	0.40
Granted	200,000	0.46
Expired and forfeited	(633,750)	1.69
Outstanding, end of period	5,223,684	\$ 0.66
Exercisable, end of period	1,235,000	\$ 0.77

The following table summarizes information about stock options outstanding and exercisable at September 30, 2010:

Exercise price	Number outstanding	Weighted average remaining term (in years)	Options vested	Options not vested
\$ 0.40	1,040,000	4.5	260,000	780,000
\$ 0.46	200,000	5.7	–	200,000
\$ 0.48	600,000	3.9	300,000	300,000
\$ 0.64	1,180,000	5.5	–	1,180,000
\$ 0.68	1,200,000	3.3	480,000	720,000
\$ 0.76	698,684	5.4	–	698,684
\$ 1.24	220,000	2.2	132,000	88,000
\$ 1.25	25,000	2.9	15,000	10,000
\$ 3.42	10,000	0.4	8,000	2,000
\$ 4.04	30,000	0.9	24,000	6,000
\$ 4.32	20,000	0.2	16,000	4,000
	5,223,684		1,235,000	3,988,684

During the three and six months ended September 30, 2010, \$127 and \$272 (September 2009 – \$141 and \$366), respectively, was recognized as stock-based compensation expense related to options with a corresponding increase to contributed surplus.

Notes to the Consolidated Financial Statements

Six month period ended September 30, 2010

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

The actual weighted average fair value of the options issued during the six months ended September 30, 2010 was \$0.27 per common share as determined using the Black-Scholes option pricing model. The following weighted average assumptions were utilized to calculate the fair value:

	6 months ended September 30, 2010
Total options granted	200,000
Weighted average exercise price	\$ 0.46
Risk-free interest rate	2.15%
Expected life	4 years
Vesting period	4 years
Expected annual volatility	79%

(c) Deferred Share Units ("DSUs")

	6 months ended September 30, 2010
Balance, beginning of period	251,246
Issued	171,672
Exercised	–
Outstanding and exercisable, end of period	422,918

During the three and six months ended September 30, 2010, the Company issued DSUs, with intrinsic value of \$43 and \$87, respectively, and recognized stock-based compensation expense of \$79 and \$112 (September 30, 2009 – \$86 and \$156), respectively, with a corresponding increase to accounts payable and accruals. All outstanding DSUs are considered vested at the date of grant. As at September 30, 2010, \$245 (March 31, 2010 – \$133) was recorded in accounts payable and accruals related to the outstanding DSUs.

(d) Restricted Share Units ("RSUs")

	6 months ended September 30, 2010
Balance outstanding, beginning and end of period	743,421
Balance exercisable, end of period	–

During the three and six months ended September 30, 2010, the Company did not issue any RSUs and recognized stock-based compensation expense of \$73 and \$43, respectively, (September 30, 2009 – \$71 and \$136, respectively) with a corresponding increase to accounts payable and accruals or other long-term liabilities. The RSUs outstanding on September 30, 2010 had a vesting period that extends up to three years. As at September 30, 2010, \$124 (March 31, 2010 – \$168) was recorded in other long-term liabilities and amounts payable within one year of \$87 (March 31, 2010 – nil) was recorded in accounts payable and accruals, related to the outstanding RSUs.

Notes to the Consolidated Financial Statements

Six month period ended September 30, 2010

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

5. CONTRIBUTED SURPLUS

	6 months ended September 30, 2010
Balance, beginning of period	\$ 8,260
Stock-based compensation recognition of fair value of stock options granted	272
Recognition of fair value of stock options exercised	(1)
Consideration in excess of stated capital from the normal course issuer bid (note 4a)	(91)
Balance, end of period	\$ 8,440

6. AMORTIZATION

	Three months ended September 30		Six months ended September 30	
	2010	2009	2010	2009
Intangible assets	\$ 101	\$ 55	\$ 157	\$ 106
Property and equipment	204	300	531	575
	\$ 305	\$ 355	\$ 688	\$ 681

7. INTEREST AND BANK CHARGES

	Three months ended September 30		Six months ended September 30	
	2010	2009	2010	2009
Interest on long-term debt	\$ 110	\$ 57	\$ 164	\$ 116
Other interest and bank charges	52	22	78	57
	\$ 162	\$ 79	\$ 242	\$ 173

8. RELATED PARTY TRANSACTIONS

Included in general and administration expenses during the three and six months ended September 30, 2010, were management and consulting fees of \$nil and \$32, respectively, (three and six months ended September 30, 2009 – \$nil) incurred from a company controlled by a director of Afexa. These expenses occurred in the normal course of operations and were measured at their exchange amounts, which were established and agreed to as consideration by the related parties.

9. CAPITAL DISCLOSURES

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

The Company has externally imposed capital requirements as governed through its credit facilities. 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.

Notes to the Consolidated Financial Statements

Six month period ended September 30, 2010

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

The Company monitors capital on the basis of the current ratio and debt to tangible net worth ratio which are both financial covenants of its credit facilities 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 September 30, 2010, this ratio has decreased to 2.24:1 from the March 31, 2010 ratio of 2.42:1. The unfavourable decrease in this ratio from March 31, 2010 is largely due to cash used to fully repay the term mortgage in the period.

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 leasehold improvements. This ratio is to be maintained below 2.00:1. At September 30, 2010, this ratio was 0.51:1 (March 31, 2010 – 0.76:1). The improvement in this ratio is primarily due to the repayment of the term mortgage in the period.

10. 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, accounts payable and accruals, and the current portion of long-term debt, approximate their estimated fair value as at September 30, 2010 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 three and six months ended September 30, 2010.

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 period. 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% (note 14). No amounts have been drawn on the demand line of credit.

(b) Foreign Exchange Risk

The Company has assets and liabilities that are denominated in foreign currencies and is therefore exposed to the financial risk of earnings fluctuations arising from changes in foreign exchange rates and the degree of volatility of these rates. The sensitivity of these monetary assets and liabilities, as at September 30, 2010, to a 10% increase in the United States dollar, with all other variables held constant, would result in a decrease in the Company's earnings before income taxes of approximately \$13 for the six months ended September 30, 2010. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

CREDIT RISK

The maximum exposure to credit risk of the Company as at September 30, 2010 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

Notes to the Consolidated Financial Statements

Six month period ended September 30, 2010

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

for doubtful accounts, as required. The failure of a large customer would have a significant effect on the Company. As at September 30, 2010, two customers (March 31, 2010 – one) represented 85% of total accounts receivable (March 31, 2010 – 38%). Included in accounts receivable is an allowance for doubtful accounts of \$39 (March 31, 2010 – \$33).

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 its working capital, cash flows and the availability of borrowing facilities. The Company's undiscounted commitments have not changed significantly from March 31, 2010, with the exception of a new purchase agreement. To encourage a contract manufacturer organization ("CMO") to invest in specific equipment required to produce the Company's products, on May 26, 2010, the Company signed a commitment to purchase a minimum of \$3,000 of inventory from this CMO over a three-year period. As at September 30, 2010, the Company has financial assets that are expected to generate sufficient cash inflows to meet cash outflows on financial liabilities.

11. 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 three months ended September 30, 2010, three Canadian customers (three months ended September 30, 2009 – three) accounted for \$13,661 or 71% (three months ended September 30, 2009 – \$12,752 or 82%) of the Company's consolidated revenue. During the six months ended September 30, 2010, three major customers (six months ended September 30, 2009 – three) accounted for \$14,120 or 67% (six months ended September 30, 2009 – \$15,436 or 71%) of the Company's consolidated revenue. Substantially all of the Company's revenue is generated in Canada.

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

12. CONTINGENCIES

In 2007, two concurrent and coordinated class action lawsuits were commenced in Alberta and Ontario against the Company and certain of its officers and former directors. These lawsuits sought compensatory damages, costs, and expenses in the amount of \$110,000 each. On September 16, 2009, the Company announced an agreement in principle was reached, subject to court approval, to settle the proposed class action lawsuits. The Company announced, on August 5, 2010, that the Ontario Superior Court of Justice had dismissed the proposed Ontario class action lawsuit in conjunction with its approval of the settlement of all related claims. As part of the settlement, and in conjunction with the Ontario Court Order, the Alberta Court of Queen's Bench dismissed the related proposed Alberta class action lawsuit. The settlement agreement provides for the settlement, release and dismissal of all claims asserted against the Company, Afexa's former auditors, and the individual proposed defendants and does not in any way constitute any admission of liability by Afexa or its officers, directors or employees. The Company's portion of the settlement amounts to \$6,600, which will be funded through insurance coverage. The Company anticipates that the settlement will close early in the 2011 calendar year.

Notes to the Consolidated Financial Statements

Six month period ended September 30, 2010

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

At September 30, 2010, the Company was involved in other 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.

13. COMPARATIVE FIGURES

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

14. SUBSEQUENT EVENTS

On October 15, 2010, the Company renewed its NCIB with the Toronto Stock Exchange ("TSX"). Under the NCIB, in the next twelve months, the Company may acquire up to 5,212,941 common shares, which is 5% of the total issued and outstanding common shares. All purchases of common shares will be made through the facilities of the TSX at the market price of the shares at the time of acquisition. Daily repurchases by the Company will be limited to a maximum of 14,126 common shares, other than block purchase exceptions, based on an average daily trading volume for the last six calendar months of 56,503 common shares. Any shares acquired by the Company will be cancelled. The NCIB commenced on October 18, 2010 and will terminate on October 17, 2011 or such earlier time as the bid is completed or terminated at the option of the Company.

On October 18, 2010, the Company announced the signing of an in-license agreement with Lisoma International Ltd. and Lisoma Canada Ltd. (collectively "Lisoma"). Under the agreement, Afexa has been granted the exclusive Canadian rights to use, develop, market, sell and distribute Lisoma's proprietary natural health product for the treatment of cold sores. The product was recently granted a Natural Product Number ("NPN") from Health Canada's Natural Health Products Directorate, allowing the product to be sold in Canada as an over-the-counter remedy to relieve the pain of cold sores and to speed healing time. A product launch is expected to occur within the next 12 months.

Afexa has 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%. 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 will be 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 is currently undrawn.