

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2008**



CV TECHNOLOGIES INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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For the Year Ended September 30, 2008

Advisory Regarding Forward Looking Statements

Management's discussion and analysis ("MD&A") contains certain forward-looking information and statements within the meaning of applicable securities laws. The forward-looking information and statements included in this MD&A are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements including, without limitation: those comments predicting the timing and/or initiation of clinical trials, clinical trial results, and associated regulatory clearances, financing and acceptance of COLD-FX® in the marketplace. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "would", "project", "could", "should", "believe", "plans", "targets", "intends" and similar expressions are intended to identify forward-looking statements. In addition to the risks outlined in the Risks and Uncertainties section, this MD&A contains forward-looking information and statements pertaining to the following: the impact of competition; consumer confidence and spending levels; general economic conditions; interest and currency exchange rates; unseasonable weather patterns; the cost and availability of capital; the cost and availability of grants/funding; and product development. The Company believes that the expectations and assumptions reflected in the forward-looking information and statements contained herein are reasonable but no assurance can be given that these expectations and assumptions are correct and that the results, performance or achievements expressed in, or implied by, forward-looking statements within this disclosure will occur, or if they do, that any benefits may be derived from them. All forward-looking statements are expressly qualified in their entirety by this cautionary statement.

The forward-looking information and statements contained in this MD&A speak only as at the date of this MD&A, and none of the Company or its subsidiaries assumes any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable laws.

Other Advisories Regarding this Report

The following MD&A for CV Technologies Inc. (the "Company"), prepared as at January 9 2009, should be read in conjunction with the Company's audited Consolidated Financial Statements for the year ended September 30, 2008 and accompanying notes. The MD&A contains disclosure of material changes occurring up to and including January 8, 2009. The consolidated financial statements of CV Technologies Inc. are prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are reported in Canadian dollars. All references to GAAP refer to Canadian generally accepted accounting principles. These accounting principles require the Company to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosure of contingent assets and liabilities. Management believes that the estimates and assumptions, which it relies upon, are reasonably based on information available at the time that these estimates and assumptions were made. These estimates and assumptions have been discussed with the Audit Committee of the Board of Directors of CV Technologies Inc. Actual results may differ under different assumptions and conditions.

Additional information on the Company, including the Company's most recently filed Annual Information Form and audited financial statements, is available at www.sedar.com.

MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

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COMPANY OVERVIEW

CV Technologies Inc. is a life sciences and technology company, founded in 1992 and headquartered in Edmonton, Alberta, Canada. The Company has developed, commercialized and patented a proprietary technology, known as ChemBioPrint[®], which is used in the discovery and biological standardization of natural products that deliver consistent, verifiable and provable health benefits. Using the ChemBioPrint[®] discovery and standardization platform, the Company's scientists are able to identify precisely the chemical profile and biological activity of natural products. The process involves a combination of chemical and biological fingerprinting to ensure that the creation and scientific substantiation of its natural health products is safe, effective and consistent. The Company is committed to using a pharmaceutical model (involving rigorous drug discovery and testing methods) to develop natural therapeutics for health maintenance and disease prevention. Its efforts in scientific research and product innovation are key factors in enabling the Company to secure the trust of consumers, trade professionals, healthcare practitioners and government. The Company's lead product, COLD-FX[®], is designed to aid in the prevention and relief of colds and flu by strengthening the immune system. COLD-FX[®] continues to be the number one selling cold and flu remedy in Canada (ACNielsen MarketTrack Service National all Channel dollar sales for the categories of Cold Remedies (including antihistamines) and Supplements & Products, 52 weeks ending September 27, 2008).

The vision of the Company is to develop and promote evidence-based, safe and effective natural medicines for disease prevention and health maintenance. This vision continues to be a basic premise for the business, and management's intent is to become a leader in Canada in preventative health care.

RECENT EVENTS**Normal course issuer bid**

On October 14, 2008, the Company announced that it would be implementing a Normal Course Issuer Bid ("NCIB") to purchase up to 5,386,175 of the Company's common shares, representing 5% of its then issued and outstanding common shares. The NCIB commenced on October 16, 2008 and will terminate on October 15, 2009. Management believes that the current market price of its common shares does not accurately reflect their underlying value. CV Technologies Inc. expects that this repurchase of common shares will benefit the remaining shareholders of the Company by increasing their proportionate equity interests in the Company. No purchases under the NCIB have been made to date, with purchases under the NCIB expected to commence following the release of the Company's September 30, 2008 year-end results.

HIGHLIGHTS

Revenue for the fiscal year ended September 30, 2008 was \$49.4 million, representing an increase of \$7.4 million (17.5%), as compared to \$42.0 million for the fiscal year ended in 2007. Most of this year-over-year increase is due to increased orders from Canadian customers. Net earnings increased by \$14.4 million to \$4.6 million in 2008 as compared to a \$9.8 million loss in 2007. The increase is primarily due to the Company's improved performance in Canada, and controlled spending in the United States. As a result of the increase in net earnings, cash flow prior to working capital changes increased year-over-year by \$12.3 million. Cash, cash equivalents and short-term investments at September 30, 2008 increased to \$9.4 million, from \$2.7 million at the end of 2007, due to an increase in cash flow prior to working capital changes.

Summary of consolidated financial results

The following table summarizes key financial data and should be read in conjunction with the audited financial statements of the Company as at and for the year ended September 30, 2008. Such financial statements are prepared in accordance with GAAP and are reported in Canadian dollars.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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Summary of consolidated financial results

(in thousands except for per share amounts)

	Fiscal Year September 30, 2008	Fiscal Year September 30, 2007
Revenues	49,389	42,035
EBITDA ¹	9,007	(4,427)
Net earnings (loss)	4,592	(9,831)
Earnings (loss) per common share - basic	0.04	(0.09)
Earnings (loss) per common share - diluted	0.04	(0.09)
Cash flow prior to working capital changes ¹	6,156	(6,109)
Working capital ²	13,742	(5,757)
Total assets	41,850	41,308
Total long-term debt and obligations under capital lease (including current portion)	7,021	3,334
Shareholders' equity	21,282	15,506

There was no income or loss caused by discontinued operations and/or extraordinary items.

1 EBITDA is defined as earnings before interest, income taxes, depreciation and amortization. The Company uses EBITDA as a supplemental financial measure of its operational performance. Management believes EBITDA to be an important measure as it excludes the effects of items, which primarily reflect the impact of long-term investment decisions, rather than the performance of the Company's day-to-day operations and is used by the Company's lenders in computing certain covenants. The Company uses cash flow prior to working capital changes as a supplemental financial measure in its evaluation of liquidity. Management believes that adjusting principally for the swings in non-cash working capital items due to seasonality assists management in making long-term liquidity assessments. The Company also believes that this measurement is useful as a liquidity or valuation measurement. Both EBITDA and cash flow prior to working capital changes are non-GAAP measures and may not be comparable to similar measures presented by other issuers. Reconciliations of these measures to the most directly comparable financial measure calculated and presented in accordance with Canadian GAAP are provided at the end of this report.

2 Working capital is defined as current assets less current liabilities. The Company uses working capital as a supplemental financial measure of its liquidity and operational performance. Working capital is a non-GAAP measure. Reconciliation of this measure is provided at the end of this report.

RESULTS OF OPERATIONS FOR THE YEAR ENDING SEPTEMBER 30, 2008**Revenue**

Revenue for the fiscal year ended September 30, 2008 was \$49.4 million, an increase of \$7.4 million (17.5%), as compared to \$42.0 million for the fiscal year ended in 2007. The increase in year-over-year revenue is attributed to the Company focusing its resources in Canada, including the creation of a national sales organization, redefining broker relationships and developing stronger customer relationships.

The Company's four largest customers contributed 75% of the Company's revenue in 2008, which is in line with the percentage of revenue attributed to the top four customers in 2007.

Also contributing to the year-over-year increase in revenue was a full year impact of a price increase in the Canadian list price of the Company's lead product, COLD-FX® by approximately 6% made on September 1, 2007. The price increase was offset partially by promotional sales programs offered to customers to coincide with the phasing in of the price increase.

Revenue from the Company's United States customers increased by \$1.0 million in fiscal 2008 to \$2.1 million, as compared to \$1.1 million in fiscal 2007, despite the Company focusing most of its marketing and sales activities in Canada. Although the Company has maintained major accounts in the United States, as the Company continues to focus its marketing and sales activity in Canada a reduction in revenue from the United States is expected.

MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)***Cost of goods sold and gross profit**

Gross margin for fiscal 2008 decreased from 68.6% in fiscal 2007 to 65.5% due in part to additional freight and packaging costs incurred in fiscal 2008 associated with moving inventories from the United States to Canada. At the end of fiscal 2007, the Company had significant United States inventory that was built up in anticipation of sales that did not materialize in this geographic location. In fiscal 2008, the Company repackaged this product for sale in Canada, thus incurring additional freight, labeling and labour costs. At the end of fiscal 2008, the Company has \$0.9 million of inventory located in the United States.

Additional freight costs were also incurred in Canada as the Company consolidated its Canadian inventory warehouse locations to two main distribution points, one in western Canada and one in eastern Canada, to improve logistics.

Also negatively affecting margin in fiscal 2008 was the cost of a production run of a new line extension for the Company's main product, COLD-FX®. Technical issues are required to be overcome before this new extension of COLD-FX® will be released for sale, and therefore the costs associated with the production run were written off.

Management estimates in respect of inventory provisions for obsolete supplies and shelf expiry dates were increased year-over-year by \$2.3 million at the end of fiscal 2007 to \$2.7 million at the end of fiscal 2008. This increase in provisions is due to the Company's plans to re-brand and re-launch certain of the Company's products in future periods.

Selling, general and administrative

In fiscal 2008, the Company initiated a number of cost containment initiatives aimed at improving cash flows and earnings. Selling, general and administrative costs decreased by \$9.1 million to \$20.0 million in fiscal 2008, from \$29.1 million in fiscal 2007. The majority of the decrease is due to a curtailment of advertising and marketing expenses in the United States. In the first half of fiscal 2007, the Company had increased its advertising and marketing expenses in the United States in an effort to launch COLD-FX® in this geographic location. Revenues in this geographic location did not materialize as expected and the Company has since refocused the majority of its sales and marketing activities in Canada. Partially offsetting the decrease in United States marketing spending in 2008 is an increase in salaries and benefits due to the creation of a national Canadian sales force. The Company's Canadian brokerage structure has been modified to become a support to the Company's sales initiative. This has significantly reduced the Company's brokerage costs. In addition, in the later half of fiscal 2008, the Company opened a sales office in Montreal, Quebec to focus on the Quebec market, an area where sales penetration is underdeveloped as compared to other areas of Canada.

Research and development

Research and development costs of \$2.3 million in fiscal 2008 are \$0.8 million lower than the \$3.1 million incurred in fiscal 2007. In 2008, the focus of the Company's research and development department was on operational support related to technical and quality programs and the development of line extensions on existing products. No new significant clinical trials commenced in this period until the fourth quarter of fiscal 2008. For most of the year, the focus was on completing existing preclinical and clinical research that commenced in earlier periods. In the fourth quarter of 2008, the Company increased its expenditures in research and development in order to expedite or reduce the time required to complete research on new product development and to commence additional research on new compounds that can potentially become commercial products. The increase in expenditures in this department in the fourth quarter was partially offset by the recording of eligible tax credits for research and development costs.

Projects in the clinical trial phase include a United States National Cancer Institute approved, and Wake Forest University led multi-centre study on the safety and efficacy of COLD-FX® for preventing colds and flu and strengthening immune systems in patients with chronic lymphocytic leukemia. The National Cancer Institute is a division of

MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

the United States National Institutes of Health. Other planned projects in fiscal 2009 include clinical trials in immunological, neurological and metabolic related areas to support new product development. Scientific and clinical research is core to the Company's vision and is the way in which the Company validates the health benefits of its products. The Company has the ability to conduct cost effective trials when compared with pharmaceutical drug trials. This is due in part to the nature of the studies as the Company is focused on compounds derived from natural health products and tested on healthy subjects, and in part to the Company's research model of collaborating with academic institutions, rather than contract research organizations as common in the pharmaceutical drug model. The fiscal 2009 research and development expenditures are expected to increase significantly over the 2008 actual expenditures as the Company plans to continue to focus and invest in new innovative research and product development.

Stock-based compensation

Stock-based compensation decreased by \$0.9 million due primarily to the forfeiture of options by people who have left the Company and due to a 3.5 million option forfeiture made in the third quarter of 2007. The impact of forfeitures was partially offset by the issuance of 1,910,000 options in fiscal 2008. The fiscal 2008 option grants, in addition to being subject to time-based vesting, are also subject to the satisfaction of performance criteria. Prior to fiscal 2008, all options issued were primarily subject only to time based vesting conditions. All of the Company's issued options are valued using the Black-Scholes option pricing model with cost recognized on a straight-line basis as the expected lives of each grant of options that vest are not expected to be significantly different.

EBITDA

EBITDA increased \$13.4 million to \$9.0 million in fiscal 2008 from an EBITDA loss of \$4.4 million in fiscal 2007. The increase in EBITDA is due to an increase in revenue as well as a decrease in marketing costs as the Company reduced most of its direct marketing efforts in the United States in fiscal 2008.

Amortization

In fiscal 2008, the Company completed and moved into a new corporate headquarters and research centre in Edmonton, Alberta. The total cost of constructing the new facilities was \$11.3 million. Amortization of this new facility, and the associated new lab equipment, furniture and office equipment commenced in the second quarter of 2008. Amortization in fiscal 2008 is \$0.2 million higher than in fiscal 2007, primarily due to the new facility net of a reduction in amortization of deferred development costs.

Interest expense and interest revenue

Interest expense increased in fiscal 2008 as compared to fiscal 2007 primarily due to the Company completing the construction of new facilities in Edmonton, Alberta and drawing on a mortgage facility for the partial financing of the construction. In addition, as part of the Company's credit agreement negotiated in 2007 with its lenders, a shareholder who was also a director of the Company provided the Company with a guarantee of \$5.0 million, at a fee of 0.5% per month. This fee was expensed as interest, bank charges and fees. The Company negotiated with its lender the removal of this guarantee in July 2008 and at that time the fee from the shareholder ceased. The Company generated positive cash flows in the fiscal year and as a result did not need to draw on the Company's operating line in the latter part of the year, which further reduced interest costs. Instead, interest income was generated through investments of cash in cashable guaranteed investment certificates.

Foreign currency gains and losses

The Company is invoiced for certain services and materials in foreign currencies (primarily United States dollars) and has foreign operations whose statutory accounts are denominated in United States dollars. These foreign operations are integrated with the Company's consolidated operations and thus under GAAP monetary items are translated at the exchange rate in effect at the balance sheet date; non-monetary items are translated at historical exchange rates;

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

revenue and expense items are translated at the exchange rate in effect on the dates they occur; depreciation or amortization of assets translated at historical exchange rates is translated at the same exchange rates as the assets to which it relates. The Company did not enter into any foreign currency hedge instruments in fiscal 2008 or in fiscal 2007. Canadian/United States exchange rates have fluctuated from \$Cdn1.00:\$U.S.1.01 at the beginning of the fiscal year to \$Cdn1.00:\$U.S.0.94 at the end of the 2008 fiscal year. A foreign exchange loss of \$0.5 million has resulted. In the 2007 fiscal year, exchange rates fluctuated from \$Cdn1.00:\$U.S.0.90 at the beginning of the fiscal year to \$Cdn1.00:\$U.S.1.00 at the end of the fiscal year with a resulting foreign exchange gain of \$1.3 million being recorded.

Income taxes

Income tax expense of \$3.0 million in fiscal 2008 is \$1.7 million lower than in fiscal 2007 despite earnings before income taxes being \$12.7 million higher than the \$5.1 million pre-tax loss experienced in the prior year. A pre-tax loss in 2007 was incurred by wholly owned foreign subsidiaries and these losses could not be applied against the taxable income achieved in Canada. In fiscal 2008, the Company reorganized part of its international structure allowing for a recovery of \$2.6 million in Canadian taxes.

RESULTS OF OPERATIONS FOR THE FOURTH QUARTER ENDED SEPTEMBER 30, 2008

Revenue in the fourth quarter of 2008 was \$14.0 million, a \$5.7 million increase from the 2007 fiscal year's fourth quarter. In the fourth quarter of 2007, production delays and logistical issues resulted in a delay of shipments to customers until the first quarter of 2008. Similar production and logistical delays were avoided in the fourth quarter of 2008. In addition, the Company's customers, in anticipation of an increase in the incidence of colds and flu, have been ordering a higher volume of stock in the fourth quarter of 2008 as compared to the fourth quarter of 2007. Customers were not only ordering for on shelf stock but were requesting an increase, as compared to fiscal 2007, in display product that the Company makes available for mid-store or end-of-aisle promotions.

Gross margin was 50.6% in the fourth quarter of 2008 as compared to the 55.4% margin achieved in the fourth quarter of 2007 due primarily to the cost of a trial production run of a new line extension for the Company's main product, COLD-FX®. Technical issues are required to be overcome before this new extension of COLD-FX® will be released for sale, and therefore the costs associated with the line production run were written off.

Selling, general and administration costs increased by \$0.9 million in the fourth quarter of 2008 as compared to the same period in 2007 with most of this increase resulting from bonuses as a result of the successful year, offset by lower marketing costs in the United States. The Company obtains cold and flu incidence reports weekly and is able to direct a part of its marketing spending at specific times and in geographic areas of the country that are experiencing increased cold and flu incidences. Research and development costs in the fourth quarter of fiscal 2008 are \$0.1 million lower than in the fourth quarter of 2007 due to the recording of tax credits for research and development costs. Before the recording of tax credits research and development costs increased due to new product development and clinical trials. Activity in this department had been cut back in previous periods as the Company was focused on curtailing all discretionary spending with a view to improving cash flows and earnings, which had deteriorated pursuant to a United States marketing campaign that did not achieve expected sales volumes.

Interest expense increased in the fourth quarter of 2008 as compared to the fourth quarter of 2007 primarily due to the Company completing the construction of new facilities in Edmonton, Alberta in 2008 and fully drawing on a mortgage facility for the partial financing of the construction costs. Offsetting this increase was a reduction in interest expense from the discontinuation of the use of the Company's operating line as the Company had positive cash flows in fiscal 2008, which resulted in positive cash balances, which in turn have been invested in cashable guaranteed investment certificates.

MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

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Net income in the fourth quarter of 2008 was increased by \$1.6 million to \$0.5 million as compared to a loss of \$1.1 million in the same period in 2007. The increase in net income is primarily due to an increase in revenue offset partially by the decrease in gross margin as described in the proceeding paragraphs.

Quarterly information

(in thousands except for per share amounts)

	Year ended September 30, 2008				Year ended September 30, 2007			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	\$14,044	\$3,355	\$10,715	\$21,275	\$8,355	\$3,215	\$7,850	\$22,615
Net earnings (loss)	531	(1,970)	(768)	6,799	(1,080)	(1,871)	(3,296)	(3,584)
Earnings (loss) per common share - basic	0.00	(0.02)	(0.01)	0.07	(0.01)	(0.02)	(0.03)	(0.03)
Earnings (loss) per common share - diluted	0.00	(0.02)	(0.01)	0.06	(0.01)	(0.02)	(0.03)	(0.03)

There was no income or loss caused by discontinued operations and/or extraordinary items. The 2008 annual earnings (loss) per common share - diluted of \$0.04 per share does not match sum of individual 2008 quarters due to rounding.

The most significant portion of the Company's revenue is from the sale of COLD-FX®. The sales of this product exhibit a seasonal pattern tied to the frequency and severity of colds and flu. Consumer purchases are affected by factors that also include the weather. This affects the volume and timing of sales. The fourth quarter of the Company's fiscal year corresponds to the time that most of the Company's major customers commence stocking up on cold and flu products in anticipation of demand in the late fall and winter months when, historically, cold and flu incidence rises. Further orders are made for restocking of product once the cold and flu season commences, which typically corresponds to the Company's first quarter. The Company's second quarter corresponds to the time that cold and flu incidence is on the decline and the third quarter is historically the lowest revenue quarter as colds and flu incidence is typically at its lowest. The Company aims to time marketing expenditures with anticipated increases in cold and flu activity; however depending on specific marketing programs these expenditures may not fall within the quarters for which revenue is derived. Net earnings in the first and second quarter of 2007 are lower than in the corresponding quarters in 2008 due to significant marketing costs being incurred in the United States in these periods for which anticipated sales did not materialize.

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal sources of capital were cash flows from operations and borrowings under its credit facilities. The Company's principal uses of cash were the financing of working capital and capital expenditures. On July 23, 2008, the Company renegotiated its bank credit facility with the following changes: the removal of the requirement for a \$5 million guarantee, which had been provided to the Company by a shareholder who was also a director and a reduction of the Company's operating line limit to \$5.0 million from \$10.0 million. The reduction in the operating line was requested as increased cash from operating activities in the first two quarters of 2008 reduced the Company's requirement for the higher operating line limit.

The Company's third quarter historically generates lower revenue due to the seasonality of sales of its main product, COLD-FX®. Cash-flow fluctuates because of cash out-flow requirements for inventory production, with higher activity in the third quarter required to build up inventories prior to the cold and flu season. Cash in-flows from the collection of receivables are higher in the first and second quarter as customers pay for invoices issued in the previous months' peak sale periods.

The Company's working capital and capital expenditure requirements depend upon numerous other factors including, but not limited to, the success and timing of the introduction of new products or entry into new markets, consumer demand, rights of return held by customers, timing of market development programs, construction costs

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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and long-term focus on product research and development activities. The Company anticipates that cash generated from operations, and availability of its bank operating line will be sufficient to meet its cash requirements for the next year.

Selected cash flow and capitalization data

(in thousands)

	Fiscal Year September 30, 2008	Fiscal Year September 30, 2007
Cash and cash equivalents and short-term investments combined	9,396	2,703
Cash flow prior to working capital changes ¹	6,156	(6,109)
Cash provided by (used in) operating activities	9,103	(3,904)
Working capital ²	13,742	(5,757)
Long-term debt and obligations under capital lease (including current portion)	7,021	3,334

¹ The Company uses cash flow prior to working capital changes as a supplemental financial measure in its evaluation of liquidity. Management believes that adjusting principally for the swings in non-cash working capital items due to seasonality assists management in making long-term liquidity assessments. The Company also believes that this measurement is useful as a liquidity or valuation measurement. Cash flow prior to working capital changes is a non-GAAP measure and may not be comparable to similar measures presented by other issuers. A reconciliation of this measure to the most directly comparable financial measure calculated and presented in accordance with Canadian GAAP is provided at the end of this report.

² Working capital is defined as current assets less current liabilities. The Company uses working capital as a supplemental financial measure of its liquidity and operational performance. Working capital is a non-GAAP measure. Reconciliation of this measure is provided at the end of this report.

Cash and working capital

At September 30, 2008, the Company had \$4.3 million (2007 - \$2.7 million) of cash and cash equivalents on hand and a short-term investment of \$5.1 million (2007 - \$nil) consisting of a cashable guaranteed investment certificate, which carries an interest rate of 3.25%. The Company's working capital at September 30, 2008 was \$13.7 million (2007 - \$5.8 million working capital deficiency). The increase in cash and cash invested in a short-term investment and increase in working capital is primarily due to the following: lower advertising costs for the year; movement of \$7.2 million of long-term inventories to current inventories, reducing the need to use cash to build up additional inventory to meet customer orders; and receiving the remaining \$3.5 million of a \$6.2 million term facility in fiscal 2008 to partially finance the construction costs of a new facility in Edmonton, Alberta. Working capital also increased at the end of fiscal 2008, as compared to the end of fiscal 2007, due to a reduction in customer deposits payable to satisfy product returns received in fiscal 2007 from United States customers. In addition, an increase in fiscal 2008 in cash from operating activities resulted in no utilization of the Company's \$5.0 million operating line for most of the last half of fiscal 2008.

Cash provided by operating activities

Cash flow prior to working capital changes increased by \$12.3 million primarily due to a \$9.1 million decrease in selling, general and administration costs in fiscal 2008 as compared to the prior year, and a \$3.5 million increase in gross profit on the year-over-year increase in revenue. The reduction in selling, general and administration costs is primarily due to lower advertising costs in 2008, as the Company curtailed United States marketing efforts after the second quarter of 2007 as expected sales did not materialize. Cash used in operating activities increased due to the increase in cash flow prior to working capital changes offset by an increase in accounts receivable due to higher fourth quarter revenue and an increase in current inventories required to manage higher activity levels.

MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

The Company manages supply risk by establishing and maintaining a scheduling program aimed at ensuring that a one-year supply of bulk ingredients and finished goods inventory is maintained to meet seasonal demand. Product sales of \$50 million require approximately \$8 to \$9 million in finished goods and bulk ingredients. Inventory levels vary with the introduction of products or entry into markets. Lower than expected United States sales in 2007 resulted in excess inventory in this geographic location and the classification of much of this excess inventory as a long-term asset as more than one year was required to utilize these inventories. In 2008, a significant portion of the inventory located in the United States was moved to Canada and repackaged for sale in Canada. During fiscal 2008, the Company sold inventory and returned deposits totaling \$6.1 million for product shipped in prior fiscal periods to United States customers for which a right of return existed. At September 30, 2008, the United States operations held \$0.9 million of inventory (2007 - \$7.4 million) of which \$0.1 million (2007 - \$6.2 million) is classified as a long-term asset. On a consolidated basis the Company has \$9.6 million (2007 - \$8.9 million) of inventories classified as a current asset.

Cash flow from financing activities

In 2008, the Company completed the construction of a new facility in Edmonton, Alberta. The construction of the facility was partially financed by a term facility provided under the Company's credit agreement, of which \$3.5 million was drawn in fiscal 2008 and \$2.7 million in fiscal 2007. The Company upgraded its enterprise resource planning system in 2008, which included the purchase of new equipment. An information systems loan of \$0.2 million was used to partially finance the software and hardware acquisition. An increase in cash flow from operating activities in the first quarter of 2008 allowed the Company to fully repay all amounts outstanding under the Company's \$5.0 million operating line. At September 30, 2008 no amount (2007 - \$2.0 million) under this \$5.0 million operating line was outstanding. During the year, 3,622,492 options were exercised at an average exercise price of \$0.15 per option for total proceeds of \$0.5 million.

Cash flow used in investing activities

During 2008, the Company completed the construction of a new facility in Edmonton, Alberta. Capital expenditures of \$4.3 million in fiscal 2008 primarily consist of capital costs related to the completion of this facility and furniture and equipment required for the new facility.

The Company also invested cash into a short-term investment consisting of a cashable guaranteed investment certificate purchased on June 30, 2008. The guaranteed investment certificate carries an interest rate of 3.25% and can be cashed, and earn interest, after being held for a minimum of 30 days. At September 30, 2008, \$5.1 million remained invested.

Capital requirements and capitalization

At September 30, 2008, the Company had obligations to repay within one year \$0.7 million of long-term debt and obligations under capital leases and make \$3.3 million of payments under operating lease agreements for premises and miscellaneous equipment, and for raw material and other operating commitments. The Company projects capital expenditures in fiscal 2009 to be approximately \$1.7 million, primarily consisting of lab and office equipment.

Aggregate contractual obligations and off-balance sheet financing

The Company has entered into operating and capital lease and purchasing agreements in the ordinary course of its business. In addition, the Company has entered into various agreements to provide financial assistance in research and development activities and clinical studies as well as for the purchase of raw material used in the manufacture of product for sale. Payment commitments relating to these agreements and under the Company's credit agreement over the next five years, are as follows:

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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Contractual obligations

(in thousands)

	Fiscal year					Total
	2009	2010	2011	2012	2013 and thereafter	
Long-term debt ¹	700	707	4,909	-	-	6,316
Capital leases	23	16	10	3	1,158	1,210
Leased premises ²	216	141	19	-	-	376
Other agreements and contracts ³	3,049	546	-	-	-	3,595
Total contractual obligations	3,988	1,410	4,938	3	1,158	11,497

1 Long-term debt includes a term mortgage that is subject to a subjective adverse events clause under which the lender may demand payment of the loan.

2 The Company recognizes rental expense on premises on a straight-line basis over the initial term of the lease. Lease inducements received by the Company as free rent periods are deferred and amortized on a straight-line basis over the term of the lease as a reduction in rental expense.

3 The Company has entered into a number of office equipment leases and contractual obligations related to future advertising, marketing, research and development, clinical and material expenditures.

Long-term debt primarily consists of a three-year term mortgage facility related to the Company's newly constructed Edmonton, Alberta facility. The Company may prepay the mortgage without penalty at any time in whole or in part. The Company also has a capital lease related to land on which the Company's Edmonton, Alberta facilities are located. The capital lease expires on November 15, 2015, and the Company expects to exercise its option to purchase the land at that time.

Class-action lawsuit

In July 2007, two concurrent and coordinated class action lawsuits were commenced against, among others, CV Technologies Inc. and certain of its officers and directors, in Alberta and Ontario. The lawsuits were commenced by representative plaintiffs for a proposed group of shareholders and seek class certification on behalf of any persons who acquired the Corporation's securities between December 11, 2006 and March 23, 2007. The lawsuits relate to allegations concerning the Corporation's audited financial statements for the fiscal year ended September 30, 2006, and its interim unaudited financial statements for the first quarter of 2007. The lawsuits allege principally that the financial statements for those periods were misleading and claim damages of \$110 million.

The matters raised in the lawsuits are, at this stage, unproven allegations that will be vigorously defended. At present, the Ontario and Alberta Courts have not granted leave for the lawsuits to proceed as secondary market securities class actions and the lawsuits have not been certified as class actions. The Plaintiffs have served their certification/leave motion materials and motions are anticipated to be heard in 2009. The Company has not recorded any liability related to the class action lawsuit. Management believes that defense costs related to the lawsuit will primarily be covered by the Company's Directors and Officers liability policy.

Share capital, stock-based compensation and director's compensation

On May 10, 2007, an officer of the Company voluntarily surrendered and relinquished all rights and privileges associated with her March 2005 option grant. This original grant of options permitted the officer the ability to purchase 3,500,000 common shares at a strike price of \$2.84 per share following vesting of those options. At the time of the grant, each option was valued at \$2.64 or \$8.6 million in total fair value. This proposal was accepted by the Board of Directors at its May, 2007 meeting.

The pool of options available for grants at September 30, 2008 was 4,110,007 (2007 - 5,365,007).

MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)***Related party transactions**

From July 16, 2007 to July 23, 2008 a shareholder, who was also a director, was provided a fee of 0.5% per month related to a \$5.0 million personal guarantee that was given to the Company's lender as part of the security position provided under the Company's credit agreement. During the year ended September 30, 2008, the Company has expensed as interest, bank charges and fees of \$244 thousand (September 30, 2007 - \$63 thousand) related to the fee on this guarantee. The Company's credit agreement was amended on July 23, 2008, whereby the requirement for this personal guarantee was eliminated.

During fiscal 2008, the Company had as part of its management team an individual who was also related to principal owners of a vendor. During the year, \$0.6 million (September 30, 2007 - \$0.6 million) was expensed as advertising and marketing costs provided by this vendor. As at September 30, 2008, \$0.3 million (September 30, 2007 - \$0.3 million) is payable to the related vendor.

All transactions with related parties have 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.

Outstanding shares and stock options

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. As at January 8, 2008, 107,723,498 common shares were outstanding compared to 104,101,006 at September 30, 2007. No preferred shares were outstanding during or at the end of either of these periods. Certain employees, officers, contractors and directors of the Company have been granted options to purchase common shares under the Company's stock option plan. At September 30, 2008, 8,585,443 options were outstanding.

On October 14, 2008, the Company announced the implementation of its NCIB to purchase up to 5,386,175 of the Company's common shares, representing 5% of its then issued and outstanding common shares. The NCIB commenced on October 16, 2008 and will terminate on October 15, 2009.

OUTLOOK

In 2008, the Company focused on executing its business plan. A number of significant changes have also been made in the Company's senior management, sales team, and Board of Directors. The Company has focused on the Canadian market place and has achieved double-digit revenue growth in 2008. The United States business resulted in revenue of \$2.1 million with spending initiatives in line with these results. A number of new product initiatives are under development with product launch dates expected over the next several years.

Based on third party data that the Company receives, the incidents of colds and flu are significantly up in the Company's first quarter of 2009, as compared to the same period of last year. Management expects that such an increase in the incidence of colds and flu should result in an increase in consumer purchases of the Company's main product COLD-FX®; however, this could be offset by recent economic uncertainty in the world's financial sector and economies that may result in reduced consumer spending on health products. The Company's customers (retailers and distributors) may reduce their inventories of the Company's product in these uncertain economic times, which would be expected to limit the growth in revenue the Company would otherwise expect. In addition, the Company's customers ordered more of the Company's product in the fourth quarter of 2008 than in the prior year's fourth quarter, which may have an impact on the first quarter 2009 revenue should existing inventories of COLD-FX® held by these customers at September 30, 2008 not be purchased by the end consumer.

The Company intends to significantly increase its focus on research and development, with a number of new products already under development. Dr. Jacqueline Shan, the Company's Chief Scientific Officer, is leading this new wave of innovation, designed to maximize shareholder value and deliver products to enhance wellness for

MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

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consumers. Although expenditures in research and development are budgeted to increase, success in this area is anticipated to: provide additional revenue in future fiscal periods; reduce the seasonality of the Company's current revenue stream; allow for a better deployment of personnel and other resources; and provide a more consistent cash flow over successive quarterly fiscal periods. Projects in the clinical trial phase include a United States National Cancer Institute approved and Wake Forest University led multi-centre study on the safety and efficacy of COLD-FX® for preventing colds and flu and strengthening immune systems in patients with chronic lymphocytic leukemia. Other planned projects in fiscal 2009 include clinical trials in immunological, neurological and metabolic related areas.

The Company is in the process of recruiting a Chief Executive Officer to further position the Company to continue to execute on its business plan and to further grow the Company. Dr. Shan relinquished the Chief Executive Officer position in September 2008. As part of the Company's strategy for growth, she continues in her role as President and Chief Scientific Officer.

With the opening of the Company's Montreal office and additional resources allocated to marketing in the province of Quebec, the Company is expecting an increase in consumer purchases in this province as awareness of the Company's products increases. Specific marketing activities, such as Quebec specific television advertising, is being undertaken to target brand awareness for the Quebec population, which historically has been underserved by the Company's product.

COLD-FX® Extra Strength was launched in the Canadian marketplace, with the first shipments to customers in October 2007. Acceptance by existing customers has been positive, and consumer response has been encouraging. Management has filed a Natural Product Number (NPN) application for COLD-FX® Extra Strength with Health Canada.

A national law firm, Stikeman Elliott LLP, has been retained to represent the Company and certain officers and directors in two concurrent and coordinated class action lawsuits. These actions contain unproven allegations that will be vigorously defended. As discussed above, leave of the Courts has not been granted for the claims to proceed as a secondary market securities class action and the claims have not been certified as a class action at this stage.

MANAGEMENT'S REPORT ON DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING**Disclosure controls and procedures (DC&P)**

In accordance with National Instrument 52-109, management is responsible for establishing and maintaining disclosure controls and procedures to provide reasonable assurance that material financial and non-financial management information and material information required to be disclosed is recorded, processed, summarized and reported within the time periods specified in the securities legislation, and that it is communicated to the CEO, CFO and Disclosure Committee to allow for timely decisions regarding required disclosure.

The system of disclosure controls and procedures includes, but is not limited to, the Company's Public Disclosure Policy, Core Values and Code of Conduct, Employee and Business Protection Guide (e.g. Whistle Blower protocols), the effective functioning of the Disclosure Committee, and the review and verification of material disclosures by senior management, and committees of the Board of Directors.

An evaluation of the effectiveness of the Company's disclosure controls and procedures was completed as at September 30, 2008 under the supervision of the chief executive and financial officers. The evaluation included a documentation review, enquiries and observation of process and control performance. Based on this evaluation, management has concluded that disclosure controls and procedures were effective in providing them with material

MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

information relating to the Company in a timely manner, to a reasonable assurance standard subject to the weaknesses described in the ICFR section below.

Internal controls over financial reporting ("ICFR")

Management is also responsible for establishing and maintaining policies and procedures which provide reasonable assurance regarding the reliability of public financial reporting that reflect the transactions and dispositions of the Company; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP; ensure that receipts and expenditures are made only in accordance with authorizations of management; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Company assets that could have a material effect on financial statements.

The Company's ICFR is evaluated using the framework established in the Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Information Technology controls are evaluated using the Control Objectives for Information and Related Technology (COBIT®) framework.

During fiscal 2008, the Company went through a number of changes in senior management and other key financial reporting personnel. While these changes resulted in some disruption of ICFR, following these changes, management has identified a number of ways in which its estimation processes and supporting ICFR systems and processes can be improved and continues to work towards implementing such enhancements.

Management has been actively working on improving the ICFR however; control enhancements have not been fully implemented as of September 30, 2008.

Changes in internal control over financial reporting

Over the last year, several changes were implemented at the Board and Senior management levels to better position the Company for future growth, and to ensure ongoing development of the Company's control culture.

In February 2008, two new directors joined the Board of Directors. J. Douglas Gilpin, a Chartered Accountant and retired partner with KPMG LLP assumed the position of Chairman of the Audit Committee. David T. Weyant, Q.C. is Senior Vice President and General Council for Alberta Health Services and has been practicing law for over 17 years, both as a litigator and as a corporate/commercial lawyer. He is a member of the Company's Corporate Governance and Nominating Committee, Compensation Committee and Intellectual Property Sub-Committee.

In September 2008, Allan Cleiren joined as Chief Financial Officer. He replaced Nazir Noormohamed who acted as interim Chief Financial Officer from March 2008. Mr. Cleiren is a Chartered Accountant with over 18 years of financial management experience in both private and public companies operating in both Canada and the United States.

In September 2008 the Company began the process of recruiting a Chief Executive Officer. Dr. Jacqueline Shan relinquished the Chief Executive Officer position in September 2008. As part of the Company's strategy for growth, she continues in her role as President and Chief Scientific Officer. As the Board of Directors searches for a new Chief Executive Officer, Mr. Jack Moffatt assumed interim oversight responsibility for operations of the Company, effective October 1, 2008.

In addition to the above changes, effective October 1, 2008 management has also upgraded its financial accounting application to reduce reliance on paper based processes and spreadsheets, and to enhance internal controls over financial reporting.

As a result of ongoing reorganization to both the Board of Directors and the senior management team, management will continue to monitor these changes, and their impact on internal controls.

MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)***Limitations on the effectiveness of internal controls**

Material misstatements due to error or fraud may not always be prevented or detected on a timely basis because of the inherent limitation of DC&P and ICFR, including the possibility of collusion or improper management override of controls. Inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. In addition, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Management will continue to monitor and improve internal controls as necessary and appropriate for the business.

RISKS AND UNCERTAINTIES

The Company is subject to risks and uncertainties inherent in the operation of the business. The Company partially mitigates these risks through a combination of sound risk-management practices, insurance and systems of internal control. The following risks and uncertainties are those that management currently believes may materially affect its operations. Additional risks and uncertainties that the Company is unaware of or currently deems immaterial may subsequently become important factors, which may materially affect the business. A more complete discussion on risk factors is available in the Company's Annual Information Form available on SEDAR.

Market and product

Management considers the Company to be in its growth stage with its lead products, COLD-FX® and REMEMBER-FX®. To achieve a successful market share, the Company anticipates significant and ongoing expenditures for marketing, advertising and public awareness programs. Future success of product revenue is dependent on those activities, regulatory review and approval for its products, the degree of patent protection afforded to particular products and seasonality of demand for its products.

The Company is reliant on relatively few customers for the majority of its revenue. A loss of one of these customers could adversely affect revenues and business operations. In Canada, four (2007 - four) major customers accounted for \$37.0 million or 75% of net revenue (2007 - \$29.5 million or 72%).

Seasonality of demand

COLD-FX® sales exhibit a seasonal pattern tied to the frequency and severity of colds and flu. Consumer purchases are affected by factors that also include weather. This affects the volume and timing of sales. The Company aims to time marketing expenditures with increases in cold and flu activity, and as such, expenditures and results may vary.

Risks associated with new product development

One of the Company's core competencies is in the area of research and development of new natural health products. A number of products are under development. Considerable costs are incurred at every stage of identifying, developing, manufacturing and marketing of new products.

There can be no assurance during any given research or development stage that any viable new products will be developed for which a market demand exists. The costs of conducting basic and clinical research to identify potential new product opportunities can be significant. There can be no assurance during any development stage that any new products developed will receive regulatory approval to make the marketing claims necessary to make the product commercially viable. Some of these products will compete with established products of proven safety and efficacy, the manufacturers of which may employ intellectual property challenges against the Company's commercialization of the products. There can be no assurance that the Company's product will be commercialized or, if commercialized, that consumers will accept them in lieu of established products. Accordingly, there can be no assurance that these products can be manufactured successfully and/or marketed profitably. Prospects for the Company's new technologies and future products are uncertain and should be regarded as highly speculative.

MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

Expectations about the Company's financial and scientific results could have a significant effect on the trading price of the Company's shares. Certain risks exist in the timing of scientific and regulatory reviews, filings and approvals, and the Company's ability to commercialize products in its pipeline and sell current products.

Health and safety risks

The Company produces products for human ingestion. Products produced by the Corporation may be found to be, or to contain substances that are harmful to the health of its clients and which in extreme cases may cause serious health conditions or death. This sort of finding may expose the Company to substantial risk of litigation and liability. Further, the Company could be forced to discontinue production of certain products, which would harm the profitability of the Company. To mitigate this risk the Company takes substantial precautions such as laboratory and clinical testing, toxicology studies, quality control and assurance testing and controlled production methods. The Company also maintains product liability insurance coverage; however, there is no guarantee that coverage can be secured in the future at commercially viable rates or with the appropriate limits.

Risks associated with raw material supply

The Corporation is dependent upon the supply of raw materials derived from natural resources. The supply of ginseng, chondroitin sulphate and other natural materials used by the Corporation may be limited, lost or affected by events such as changes in weather patterns and growing seasons, disease and pathogens to which the natural resources are vulnerable, natural or man-made disasters and environmental regulations. There can be no assurance that these or other factors will not affect the supply of materials. The Company maintains relationships with a number of suppliers to mitigate this risk.

Reliance on third parties

The Company relies on Contract Manufacturing Organizations for extraction, encapsulation, packaging and warehousing of its products. Dependence upon third parties for the manufacturing of its products may affect the Company's earnings and ability to make and deliver such products on a timely and competitive basis. Deficiencies could result from, among other things, the disruption of product supply. Some Contract Manufacturing Organizations may be located in foreign countries and may be subject to import and export regulations in these countries. To endeavor to mitigate this risk, management establishes collaborative arrangements, alliances or partnerships and negotiates favorable terms.

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. Liquidity risk could arise from the Company's inability to meet obligations when due in a timely manner, including, but not limited to, an inability to fulfil its contractual arrangements with suppliers and customers. 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, 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's operations are seasonal in nature. Typically, sales are lowest in the third quarter and incoming cash flows are lowest in the fourth quarter. Customers may request product returns and the Company may at its discretion agree to the return. This could result in unscheduled payments, which may have a material adverse effect.

The Company currently has a large cash reserve from collections of its accounts receivable; however, availability of cash is also dependent upon the earnings, availability of existing or alternate financing facilities, contractual commitments, timing and extent of product returns and repayment terms. The outcome of these activities and events are difficult to predict.

MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

The Company controls liquidity risk by management of working capital, cash flows and the availability of borrowing facilities.

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 twelve month period ended September 30, 2008.

Market risk**a) Interest rate risk**

Bank indebtedness and mortgage are 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 sensitivity of the mortgage to a 100 basis point change in the interest rate, with all other variables held constant, would result in a change in the earnings (loss) before tax of approximately \$51 thousand for the twelve month period ended September 30, 2008. The Company did not employ interest rate hedging activities during the year. The Company has the option to fix the interest rate on its mortgage for the balance of the term.

b) Foreign exchange risk

The Company has assets and liabilities that are denominated in foreign currencies and thus are 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 to a 10% change in the United States dollar, with all other variables held constant, would result in a change in the Company's earnings (loss) before tax of approximately \$373 thousand. 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, 2008 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.

Litigation risk

In 2007, two concurrent and coordinated class action lawsuits were commenced in Alberta and Ontario against the Company and certain of its directors and officers. These lawsuits seek compensatory damages, costs, and expenses in the amount of \$110 million. The lawsuits are at an early stage. The Company has not recorded any liability related to these matters. These suits against the Company could result in substantial costs and the diversion of management's attention and resources.

CRITICAL ACCOUNTING POLICIES, CHANGES AND ESTIMATES

Critical accounting policies and estimates are those policies, assumptions and estimates most important in the preparation of the Company's consolidated financial statements. Selection of policies requires management's subjective and complex judgment from many alternatives and estimates involving matters that are inherently uncertain. Those policies, assumptions and estimates affect the reported amounts, assets and liabilities, and revenue and expenses during the period represented and at the date of the financial statements. Actual results could differ from these estimates.

MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

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 realizing of future income taxes, useful lives of long-lived assets, future expected 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.

Management believes the following critical accounting policies affect the more significant judgments and estimates used in the preparation of the consolidated financial statements.

Critical accounting policies and estimates relate to the following:

- Revenue recognition
- Accrued liabilities
- Contingencies
- Income taxes
- Inventory valuation, and
- Stock-based compensation

Revenue recognition

The Company recognizes revenue in accordance with the CICA handbook Section 3400 Revenue and Emerging Issues Committee (EIC) Abstract 141 Revenue Recognition. This guidance states that revenue recognition should take place when realized or realizable and earned. Revenue recognition occurs upon meeting all of the following criteria:

- evidence of an arrangement exists;
- upon delivery of the product or rendering of services;
- the seller's price to the buyer is fixed and determinable; and
- collection is reasonably assured.

EIC-141 also states that revenue recognition occurs at the time of the sales transactions where the buyer has the right to return the product only if:

- the seller's price to the buyer is substantially fixed or determinable at the date of sale;
- the buyer has paid the seller, or the buyer is obligated to pay the seller and the obligation is not contingent on resale of the product;
- the buyer's obligation to the seller would not be changed in the event of physical destruction, loss or damage of the product;
- the buyer acquiring the product for resale has economic substance apart from that provided by the seller;
- the seller does not have significant obligations for future performance to directly bring about resale of the product by the buyer; and
- the amount of future returns can be reasonably estimated.

The Company recognizes revenues when the title and risk of ownership transfers to the customer, and the above criteria are satisfied, which is generally at the time of delivery of products to customers. Net revenue represents total gross revenues less allowances for customer credits, including estimates of discounts and allowances, rebates, charge-backs, and product returns.

The Company establishes allowances for estimated rebates, charge-backs and product returns based on numerous qualitative and quantitative factors, which include:

- the number of and specific terms of arrangements with customers;
- estimated levels of inventory in the distribution channel;

MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

- historical rebates, coupon redemption rates, charge-backs and returns of products;
- direct communication with customers;
- anticipated introduction of competitive products;
- anticipated pricing strategy changes by the Company and/or its competitors;
- analysis of sales data gathered by a third-party data provider;
- the effect of regulatory changes; and
- the estimated remaining shelf life of products.

The Company uses internal forecasts, historical sales data, information gathered from customers and external data providers and judgment, to determine the estimated amount of product sold to customers, product in the sales channel or customer inventories, and to assess risk of returns. Consistent with industry practice, we periodically offer promotional discounts or allowances to the existing customer base. Where product is sold into new markets, the Company's policy is to recognize revenue when the risk of return is substantially eliminated, which is based on estimates of sell-through to the end consumer.

Customer discounts and allowances are typically a percentage of the current published list price or may be a fixed amount, and treated as off-invoice allowances. Accordingly, discounts reduce revenue in the period of offering the program. Discounts and allowances vary by customer, marketing program and time of the year. Discounts in excess of recognized revenue are charged to either costs of goods sold or to selling, general and administration expense, depending on the nature of the discount or allowance, following a customer specific analysis. Customer discounts and allowances were approximately \$2.3 million at September 30, 2008 (2007 - \$1.4 million).

Patents, registered trademarks and deferred research and development costs

Patents and registered trademarks are presented at cost less accumulated amortization, generally computed using the straight-line method based on estimated useful lives ranging from ten to twenty years. The Company amortizes patents and registered trademarks on a systematic basis to reflect the pattern in which the economic benefits of the asset are consumed, if that basis can be reliably determined. The expected useful life is the period over which the asset contributes directly or indirectly to future cash flows. Management determines the useful lives of these intangible assets based on a number of factors, which include legal, regulatory or contractual limitations; known technological advances; anticipated demand; and the presence of competition. A significant change in these factors may require a revision of the expected remaining useful life of an intangible asset, which could have a material effect on results of operations.

Research and development costs are charged to expenses as incurred unless a development project meets the Canadian GAAP criteria for deferral and amortization. Deferred research and development costs consist of direct and indirect expenditures related to the Company's research and development programs. The Company assesses whether these costs have met the relevant criteria for deferral and amortization at each reporting date.

No amounts were capitalized for product development costs in 2008. In 2007, the Company expensed product development costs of \$0.8 million which were previously capitalized.

The recording of those intangible assets acquired through asset acquisitions or business combinations is at fair value based on an allocation of the purchase price.

Accrued liabilities

The Company engages a significant number of third party service providers, contract manufacturing and logistic organizations. The basis of accruals is estimated expenses and/or inventory production. Where possible, detective controls, such as confirmations, are used to verify significant accruals. For example, the Company requests and

MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

verifies the accruals with statements from vendors and reconciles invoices received subsequent to the period end against those accruals. This accrual depends on the issuance and accuracy of estimates in purchase orders and contracts, and the accuracy of estimates on the percentage of completion and costs incurred to the end of the reporting period.

Contingencies

In the normal course of business, the Company may be subject to loss contingencies, such as claims and assessments arising from litigation and other legal proceedings, contractual commitments and indemnities, product liabilities, and tax matters. The Company is required to accrue for such loss contingencies or expense if it is probable that the outcome will be unfavourable or will take place, and if there is a reasonable estimate of the amount of the loss or expense. Evaluation of the Company's exposure to a loss takes into consideration various factors, including the progress of each contingency, experience with similar contingencies, and consultation with specialists and external legal counsel. The Company re-evaluates contingencies as additional information becomes available. Given the uncertainties inherent in complex litigation, regulatory processes and other contingencies, these evaluations can involve significant judgment about future events. The ultimate outcome of any litigation or other contingency may be material to the results of operations, financial position and cash flows.

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. The Company has operations in various countries that have differing tax laws and rates. Income tax reporting is subject to audit by both domestic and foreign tax authorities.

The provision for income taxes involves a number of estimates and assumptions made by management. The amount of income earned in the various operating jurisdictions and the rate of taxes payable in respect of that income has an effect on the Company's consolidated income tax rate. The Company also enters into many transactions and arrangements in the ordinary course of business in which the tax treatment is not entirely certain and may involve different taxation jurisdictions. As a result, management must make estimates and judgments based on knowledge and understanding of domestic and international tax rules in determining the consolidated tax provision. For example, certain countries in which the Company operates could seek to tax a greater share of income than has been provided for by the Company. The outcome of any audits by taxation authorities may differ from the estimates and assumptions used in determining our consolidated income tax provisions and accruals. These assessments could have a material effect on the Company's consolidated income tax provision and results of operations, financial position and cash flows for the period in which the tax authorities make such a determination. The Company may make a valuation allowance on deferred tax assets primarily relating to operating losses and other carry forward items when management does not believe realization is more likely than not. Management must exercise significant judgment to determine the appropriate amount of valuation allowance to record. Changes in the valuation allowance could materially increase or decrease the provision for income taxes in a period and affect the results of operations.

Inventory valuation

Inventories are presented at the lower of cost or net realizable value. The cost of inventory includes direct materials and labour costs, on a weighted average basis for the production lot. The net realizable value of inventory is determined by the estimated selling price of the products in the normal course of business less the cost of the inventory and estimated costs necessary to complete a sale. If the costs exceed estimated net realizable value, the Company records allowances and continues to assess these allowances at least on a quarterly basis. Inventory valuation

MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

adjustments at the end of September 30, 2008 were approximately \$2.7 million (2007 - \$0.4 million). The valuation adjustments related to packaging material and excess inventories that would not be useable with planned changes to product branding and the revenue forecasts of the recently updated strategic plan for the Company.

Stock-based compensation

The Company has adopted the fair value-based method for recognizing stock-based compensation. The Company uses the Black-Scholes option-pricing model to calculate stock option values, which requires certain assumptions related to the expected life of the option, forfeiture rate, future stock-price volatility, risk-free interest rate, and dividend yield. The expected life of an option is based on a maximum vesting period of up to eight years under the stock option plan. The basis for the future stock-price volatility is historical volatility of the Company's common shares over the expected life of the option. The basis of the risk-free interest rate is the zero-coupon Canadian government bond rate with a term equal to the expected life of the option. The basis of the dividend yield is on the option's exercise price and expected annual dividend rate at the time of grant. The Company has not paid dividends in the past three years, nor has any plans to pay dividends. Changes to any of these estimates or assumptions, or the use of a different option-pricing model could produce a different fair value for stock-based compensation expense, which could have a material effect on the results of operations.

Foreign currency translation of foreign subsidiaries

The Company considers its wholly owned foreign subsidiaries integrated operations under the definition provided in Section 1651 of the CICA Handbook. These foreign subsidiaries are dependent on the parent company for financial support. Accordingly, the accounts of those affected subsidiaries are translated using the temporal method. This method requires exchange gains or losses resulting from translating the foreign currency denominated financial statements to Canadian dollars to be included in income during the period. A foreign exchange loss of \$0.5 million (2007 - gain \$1.3 million) was recognized during the year.

ADOPTION OF ACCOUNTING CHANGES**Accounting changes**

On October 1, 2007, the Company adopted Section 1506, Accounting Changes. This Section allows an entity to change an accounting policy only if the change is required by a primary source of GAAP or results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows. This standard is effective for interim and annual periods relating to fiscal years beginning on or after January 1, 2007. The adoption did not have any effect on the Company's consolidated financial statements.

Capital disclosures

On October 1, 2007, the Company adopted Section 1535, Capital Disclosures. This Section establishes standards for disclosing information about an entity's capital and how it is managed. The standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The adoption of this standard did not have an effect on the amounts recorded in the Company's consolidated financial statements.

FUTURE ACCOUNTING PRONOUNCEMENTS**Inventory**

The Company will adopt Section 3031, Inventory, for the valuation, presentation and disclosure of inventory, effective October 1, 2008. This section prescribes the measurement of inventory at the lower of cost and net realizable value. The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. This section applies to interim and annual

MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

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consolidated financial statements for fiscal years beginning on or after January 1, 2008. The Company will adopt this section for its fiscal year beginning October 1, 2008. The adoption of this standard is expected to result in an increase to opening inventory of \$1.3 million, an increase in future income tax liabilities of \$0.4 million and a decrease in the deficit of \$0.9 million on the Company's consolidated financial statements at the date of adoption of this standard.

Goodwill and intangible assets

In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, which supersedes Sections 3062 Goodwill and Other Intangible Assets and 3450 Research and Development Costs. Section 3064 provides additional guidance on when expenditures qualify for recognition as intangible assets and requires that costs be deferred only when relating to an item meeting the asset definition. This new accounting standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 31, 2008. The Company will adopt this standard for the fiscal year commencing October 1, 2009. It is not expected that adopting Section 3064 will have a material impact on the Company's financial position or results of operation.

International financial reporting standards

On February 22, 2008, Canada's Accounting Standards Board confirmed the date that will result in Canadian GAAP as used by public companies being converged with International Financial Reporting Standards. The change will be applicable to fiscal years beginning on or after January 1, 2011, which, for the Company, will be the fiscal year beginning October 1, 2011. The Company has begun assessing the impact of the transition.

NON-GAAP FINANCIAL MEASURES AND RECONCILIATIONS

Normally, a non-generally accepted accounting principles (non-GAAP) financial measure is a numerical measure of a company's performance, financial position or cash flows that either excludes or includes amounts, not normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP. EBITDA, working capital and cash flow prior to working capital changes are not measures of financial performance (nor do they have standardized meanings) under Canadian GAAP. In evaluating these measures, investors should consider that the methodology applied in calculating such measures may differ among companies and analysts.

The Company uses both GAAP and certain non-GAAP measures to assess performance. Management believes these non-GAAP measures provide useful supplemental information to investors in order that they may evaluate the Company's financial performance using the same measures as management. The Company's management believes that, as a result, information provided to the investor is more transparent in assessing the financial performance of the Company. Investors should not consider these non-GAAP financial measures as a substitute or superior to the measures of financial performance prepared in accordance with GAAP.

Working capital

The definition of working capital is current assets less current liabilities. The Company uses working capital as a supplemental financial measure of its liquidity and operational performance.

Working capital*(in thousands)*

	September 30, 2008	September 30, 2007
Current assets	27,716	19,149
Current liabilities	13,974	24,906
Working capital	13,742	(5,757)

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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EBITDA

EBITDA is defined as earnings before interest, income taxes, depreciation and amortization. The Company uses EBITDA as a supplemental financial measure of its operational performance. Management believes EBITDA to be an important measure as it excludes the effects of items that primarily reflect the impact of long-term investment decisions, rather than the performance of the Company's day-to-day operations and is used by the Company's lenders in computing certain covenants. As compared to net earnings according to GAAP, this measure is limited in that it does not reflect the periodic costs of certain capitalized tangible and intangible assets used in generating revenues in the Company's business. Management evaluates such items through other financial measures such as capital expenditures and cash flow provided by operating activities. The Company believes that this measurement is useful to assess a company's ability to service debt and to meet other payment obligations or as a valuation measurement.

The following is a reconciliation of EBITDA to net earnings, the most directly comparable financial measure calculated and presented in accordance with Canadian GAAP.

EBITDA*(in thousands)*

	Fourth Quarter 2008	Fourth Quarter 2007	Fiscal Year 2008	Fiscal Year 2007
Net earnings (loss)	531	(1,080)	4,592	(9,831)
Current income taxes	965	268	3,151	4,381
Future income taxes	(178)	373	(122)	340
Amortization	299	188	971	746
Interest, bank charges and fees	283	170	759	233
Interest revenue	(88)	(27)	(344)	(296)
EBITDA	1,812	(108)	9,007	(4,427)

Cash flow prior to working capital changes

Below is a reconciliation of "cash flow prior to working capital changes" to cash provided by operating activities, the most directly comparable financial measure calculated and presented in accordance with Canadian GAAP.

The Company uses cash flow prior to working capital changes as a supplemental financial measure in its evaluation of liquidity. Management believes that adjusting principally for the swings in non-cash working capital items due to seasonality assists management in making long-term liquidity assessments. The Company also believes that this measurement is useful as a liquidity or valuation measurement.

Cash flow prior to working capital changes*(in thousands)*

	Fiscal Year 2008	Fiscal Year 2007
Cash provided by (used in) operating activities	9,103	(3,904)
Change in non-cash operating working capital	4,288	(9,525)
Change in non-current deferred revenue	-	(30)
Change in non-current inventory	(7,235)	7,350
Cash flow prior to working capital changes	6,156	(6,109)