

Consolidated Financial Statements

For the years ended September 30, 2009 and 2008

Annual Report 2009



Afexa Life Sciences Inc.

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

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

The Board of Directors carries out its responsibility with respect to the consolidated financial statements primarily through its Audit Committee. The Audit Committee meets periodically with management and the external auditors to discuss the annual audit, accounting policies and practices, and other financial reporting matters. The most recent financial statements have been audited by Ernst & Young LLP, Chartered Accountants, who have full access to the Audit Committee, with and without the presence of management. Their report follows hereafter.



Jack Moffatt
Chairman and Chief Executive Officer



Allan Cleiren
Chief Financial Officer and Senior Vice President Operations

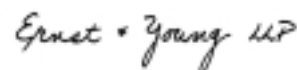
To the Shareholders of Afexa Life Sciences Inc.

We have audited the consolidated balance sheets of Afexa Life Sciences Inc. as at September 30, 2009 and 2008 and the consolidated statements of earnings and comprehensive income and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Canada
December 10, 2009



Chartered Accountants

Consolidated Balance Sheets

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(in thousands of Canadian dollars)

As at September 30	2009	2008
ASSETS		
Current		
Cash and cash equivalents	\$ 3,495	\$ 4,315
Short-term investment (note 5)	-	5,081
Accounts receivable (note 6)	4,841	5,984
Inventory (note 7)	12,411	9,563
Prepaid expenses and deposits	749	237
Income taxes receivable	2,101	2,459
Future tax asset (note 8)	269	273
	23,866	27,912
Inventory, non-current (note 7)	-	116
Intangible assets (notes 3 and 9)	1,491	1,314
Property and equipment (notes 3 and 10)	12,307	12,392
Future tax asset (note 8)	223	312
	\$ 37,887	\$ 42,046
LIABILITIES		
Current		
Accounts payable and accruals (note 14c)	\$ 7,803	\$ 9,157
Current portion of long-term debt (note 11)	706	700
Customer deposits (note 12)	134	4,255
Future tax liability (note 8)	75	44
Current portion of obligations under capital lease (note 11)	13	14
	8,731	14,170
Long-term debt (note 11)	4,863	5,561
Obligations under capital lease (note 11)	777	746
Deferred revenue (note 13)	180	180
Future tax liability (note 8)	140	107
Other long-term liabilities (note 14d)	136	-
	14,827	20,764
SHAREHOLDERS' EQUITY		
Share capital (note 14)	23,101	23,720
Contributed surplus (note 15)	8,224	8,179
Deficit	(8,265)	(10,617)
	23,060	21,282
	\$ 37,887	\$ 42,046

Commitments and contingencies (note 26)

See accompanying notes to the consolidated financial statements

On behalf of the Board



J. Douglas Gilpin
Director



David T. Weyant
Director

Consolidated Statements of Earnings and Comprehensive Income and Deficit

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(in thousands of Canadian dollars except per share amounts)

Years ended September 30	2009	2008
Revenue	\$ 47,592	\$ 49,389
Cost of goods sold	15,440	17,044
	32,152	32,345
Operating expenses		
Selling, general and administration (note 26)	23,899	19,975
Research and development (note 8)	3,401	2,285
Amortization (note 17)	1,311	971
Stock-based compensation (notes 14b, 14c and 14d)	834	641
Interest and bank charges (note 18)	400	759
Loss on foreign exchange (note 20)	182	496
	30,027	25,127
Earnings before other items and income taxes	2,125	7,218
Other items		
Interest income	194	344
Write down of intangible assets (note 9)	(85)	(28)
Other income	10	87
	119	403
Earnings before income taxes	2,244	7,621
Income tax expense (recovery) (note 8)		
Current	1,267	3,151
Future	(324)	(122)
	943	3,029
Net earnings and comprehensive income	1,301	4,592
Deficit, beginning of year	(10,617)	(15,209)
Adjustment (note 3)	1,051	-
Adjusted deficit, beginning of year	(9,566)	(15,209)
Deficit, end of year	\$ (8,265)	\$ (10,617)
Earnings per share (note 16)		
Basic earnings per share	\$ 0.01	\$ 0.04
Diluted earnings per share	0.01	0.04
Weighted average number of shares outstanding		
Basic	106,434,436	106,268,024
Diluted	106,446,476	107,457,887

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flow

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(in thousands of Canadian dollars)

Years ended September 30	2009	2008
Operating activities		
Net earnings and comprehensive income	\$ 1,301	\$ 4,592
Items not affecting cash		
Stock-based compensation (notes 14b, 14c and 14d)	782	641
Future income taxes (note 8)	(324)	(122)
Amortization (note 17)	1,311	971
Accreted interest on land under capital lease	50	46
Loss on disposal of property and equipment	11	-
Write down of intangible assets (note 9)	85	28
	3,216	6,156
Change in non-cash operating working capital (note 23)	(6,008)	(4,288)
Change in non-current inventory	116	7,235
Cash (used in) provided by operating activities	(2,676)	9,103
Investing activities		
Purchase of property and equipment	(947)	(4,043)
Purchase of intangible assets	(465)	(473)
Proceeds on disposal of property and equipment	23	-
Purchase of short-term investment (note 5)	-	(9,024)
Redemption of short-term investment (note 5)	5,081	3,943
Cash provided by (used in) investing activities	3,692	(9,597)
Financing activities		
Repayment of obligations under capital lease	(13)	(14)
Issuance of share capital (note 14a)	-	543
Share purchase under normal course issuer bid (note 14a)	(1,115)	-
Issuance of long-term debt (note 11)	-	3,739
Repayment of long-term debt (note 11)	(708)	(123)
Repayment of bank indebtedness (note 11)	-	(2,039)
Cash (used in) provided by financing activities	(1,836)	2,106
(Decrease) increase in cash and cash equivalents	(820)	1,612
Cash and cash equivalents, beginning of year	4,315	2,703
Cash and cash equivalents, end of year	\$ 3,495	\$ 4,315
Supplemental cash flow information:		
Interest paid	\$ 259	\$ 250
Interest received	194	344
Income taxes paid	3,015	2,672
Property and equipment additions		
- financed by obligations under capital lease	-	39
- included in accounts payable and accruals at year end	141	35

See accompanying notes to the consolidated financial statements

Notes to the Consolidated Financial Statements

Years Ended September 30, 2009 and 2008. All amounts are in thousands of Canadian dollars, except share data

1. Nature of operations and basis of presentation

Afexa Life Sciences Inc. (the "Company") is a publicly owned company that develops and sells biopharmaceutical products. It is incorporated under the Business Corporations Act (Alberta). The head office and research centre for the Company is located in Edmonton, Canada.

On April 1, 2009, CV Technologies Inc. announced that it changed its name to Afexa Life Sciences Inc. The change was approved by shareholders at the Company's Annual General and Special Meeting held on March 26, 2009. In conjunction with the change in name, the ticker symbol under which the Company's common shares trade on the Toronto Stock Exchange also changed from CVQ to FXA. The name change is part of a broader branding plan, which will leverage the brand equity associated with COLD-FX®.

The Company has subsidiary companies incorporated and operating in Canada, the United States, and Switzerland. CVT Capital Inc. is incorporated under the Business Corporations Act (Alberta), COLD-fx Pharmaceuticals (USA) Inc. is incorporated in the United States, and fX Life Sciences AG is incorporated under the Swiss Code of Obligations. The Company also has an inactive subsidiary incorporated under the Swiss Code of Obligations (note 28).

2. Summary of significant accounting policies

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

Principles of consolidation

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

Use of estimates and measurement uncertainty

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

Significant estimates made by management include provisions for customer discounts and incentives, allowances for uncollectible accounts, rights of return, the realizable portion of inventory during the Company's normal business cycle, inventory provisions, the realizability of future income taxes, useful lives of long-lived assets, expected future cash flows used in evaluating long-lived assets for impairment, percentage completion of contracted service expenditures and stock-based compensation fair values. On an ongoing basis, management reviews its estimates to ensure that these values appropriately reflect changes in the Company's business and new information as it becomes available. As at September 30, 2009, management's estimate for customer discounts and incentives totalled approximately \$3,928 (2008 - \$2,207), which are included primarily as a reduction in accounts receivable, or included in accounts payable and accruals and customer deposits.

Translation of foreign currencies

The consolidated financial statements of the Company's operations are reported in Canadian dollars. One of the Company's subsidiaries uses the United States dollar as the currency of measurement. This subsidiary is an integrated foreign operation which is translated using the temporal method, whereby monetary assets and liabilities are translated at the exchange rates prevailing at the consolidated balance sheet dates and non-monetary assets and liabilities are translated at the rates in effect when the assets were acquired or liabilities were assumed. Revenues and expenses are translated in a manner that produces substantially the same reporting currency amounts that would have resulted had the underlying transactions been translated on the dates they occurred. This approach is achieved by applying the previous month's closing exchange rate as a proxy for the current month's exchange rate and applying the rate to revenues and expenses that occurred during the month. Amortization and non-monetary items such as inventory, prepaid expenses and deposits, property and equipment, and intangible assets are translated at the exchange rate in effect when the assets were acquired. The resulting exchange gains or losses are included in the determination of earnings.

Revenue recognition

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

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

Notes to the Consolidated Financial Statements *(continued)*

Years Ended September 30, 2009 and 2008. All amounts are in thousands of Canadian dollars, except share data

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

Customer discounts, rebates and incentive allowances which do not result in a sufficiently separable benefit from the sale are recorded as a reduction in revenue, and if they are separable, they are recorded in either cost of goods sold or in selling, general and administration expense, depending on the nature of the expense. For discounts, rebates and incentive allowances to be sufficiently separable from the sale of the goods, the benefit must be identifiable, available from a party other than a purchaser of the Company's products and the fair value must be reasonably estimable. If discounts, rebates and/or incentive allowances result in negative revenue for a specific customer since inception of the overall relationship, the amount of the cumulative shortfall is classified as an advertising and marketing expense.

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

Cash and cash equivalents

Cash and cash equivalents include balances with banks, net of outstanding cheques, and short-term liquid investments with maturities of less than 90 days.

Inventory

Inventories of raw and packaging materials, work-in-progress, finished goods and product shipped with right of return are valued at the lower of cost and net realizable value. Work-in-progress costs include direct materials, labour and an allocation of overhead which are determined on a weighted average basis. The Company determines estimated annual production levels and allocates overhead costs on that basis (note 3). For product shipped with right of return, displays and packaging materials normally included in the value of the inventory, which the Company does not expect to recover are expensed when the product is initially shipped to the customer. Inventory is reviewed for obsolescence at least on a quarterly basis, and where identified, the excess of carrying amount over net realizable value is expensed to cost of goods sold. Management's estimate of inventory not reasonably expected to be realized in cash during the normal operating cycle is classified as non-current inventory.

Intangible assets

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

Amortization is provided for using the following methods and rates:

Patents	straight-line over 20 years
Computer software	50%, declining balance
Website development	straight-line over the estimated life
Registered trademarks	straight-line over 10 years

Property and equipment

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

Amortization is not recorded until an asset is available for use. Amortization is provided for using the following methods and rates:

Building	4 - 10%, straight-line
Lab equipment	20%, declining balance
Furniture and equipment	20 - 30%, declining balance
Computer hardware	20%, declining balance
Leasehold improvements	straight-line over term of lease
Equipment under capital lease	20%, declining balance
Automobiles	30%, declining balance

Notes to the Consolidated Financial Statements *(continued)*

Years Ended September 30, 2009 and 2008. All amounts are in thousands of Canadian dollars, except share data

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

Leases

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

Research and development costs

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

Development costs are capitalized for clearly defined, technically feasible technologies which management intends on producing and promoting to an identified future market with existing or estimated future resources. The Company annually evaluates deferred development costs to consider whether these costs continue to meet criteria for deferral. Amortization of development costs commence at the start of commercial production of the product. Costs are amortized on a straight-line basis over a five year period based on recoverability of unamortized deferred development costs. The Company has not capitalized development costs during the periods presented.

Investment tax credits

Investment tax credits relating to qualifying scientific research and experimental development expenditures that are recoverable in the current year are accounted for as a reduction in research and development expenditures. Investment tax credits not recoverable in the current year are accrued provided there is reasonable assurance that the credits will be realized.

Comprehensive income

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

Financial instruments

On acquisition, all financial assets are classified as held-to-maturity, loans and receivables, held-for-trading or available-for-sale. The Company's financial instruments comprise and have been classified as follows: cash and cash equivalents and short-term investment as held-for-trading; accounts receivable is classified as loans and receivables; term mortgages, obligations under financing loans, and accounts payable and accruals have been classified as other liabilities.

For financial instruments that are initially classified on the consolidated balance sheet at fair value and if classified as loans and receivables or held-for-trading, changes in fair value are included in earnings. For those instruments classified as available-for-sale and for derivative financial instruments designated as hedges, changes in fair value are included in other comprehensive income. Other comprehensive income and its components, when presented, are included directly in equity as accumulated other comprehensive income.

Except for revolving debt obligations, financial assets and financial liabilities classified other than as held-for-trading are measured at amortized cost based on the effective interest rate method.

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

Impairment of long-lived assets

The Company evaluates the carrying value of long-lived assets, including property and equipment, intangible assets and other assets subject to amortization, for potential impairment when events and circumstances warrant a review. Factors that the Company considers important which could trigger an impairment review include, but are not limited to, significant under-performance relative to historical or projected future operating results, significant changes in the manner of use of the asset or the overall strategy of the business, significant negative industry or economic trends, a significant decline in the Company's

Notes to the Consolidated Financial Statements *(continued)*

Years Ended September 30, 2009 and 2008. All amounts are in thousands of Canadian dollars, except share data

share price for a sustained period and the Company's market capitalization relative to the net book value of its assets and liabilities. These factors could affect the expected cash flows of the related long-lived asset.

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

Earnings per share

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

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

Income taxes

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

Stock-based compensation plans

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

On April 1, 2009, the Company implemented a Deferred Share Unit ("DSU") plan. Under the plan, participants are eligible to receive an equivalent cash value of the common shares, at a future date subject to certain conditions. The value of the DSU is equal to the share price at the date of grant. Compensation expense is recognized as stock-based compensation on the date of grant as no vesting periods apply. Changes in the amount of the liability due to share price changes after the initial grant date are recognized as stock-based compensation expense in the period in which the changes occur.

On April 1, 2009, the Company implemented a Restricted Share Unit ("RSU") plan under which participants are eligible to receive an equivalent cash value of the common shares, at a future date subject to certain conditions. The value of the RSU is equal to the share price at the date of grant. In the case of RSUs granted for a prior service period, the compensation cost will be recognized in the period the RSU is granted. In the case of RSUs granted for current or future service periods, the fair value of the grant is based on the intrinsic value of the units and compensation cost is recognized over the expected vesting period of the stock-based compensation. In the event the service period is not defined, treatment will be consistent with RSUs granted for current and future periods. Changes in the amount of the liability due to share price changes after the vesting date are recognized as stock-based compensation expense in the period in which the changes occur.

3. Changes in significant accounting policies

During the year, the Company adopted the following new Canadian Institute of Chartered Accountants ("CICA") Handbook standards:

CICA 3031 – Inventories

Effective October 1, 2008, the Company adopted the provisions of the CICA Handbook Section 3031, Inventories, retroactively without restatement. This section supersedes the previous inventory section and alters the costing and valuation of inventory due to the expanded guidance on the costs to be included in inventory and additional guidance on the net realizable value of inventory. In addition, the nature of the disclosure of inventories has been expanded to include additional disclosure regarding the accounting policies used in measuring the inventory, the carrying value of the inventory, amounts recognized as an expense during the period, write-downs and the amount of any reversal of write-downs recognized in the period.

Notes to the Consolidated Financial Statements *(continued)*

Years Ended September 30, 2009 and 2008. All amounts are in thousands of Canadian dollars, except share data

In accordance with the new standard, fixed and variable overhead costs associated with the manufacturing of inventory have been added to the inventory value. Upon adoption, the allocation of overhead costs resulted in an increase in opening inventory of \$1,538, an increase in future income tax liabilities of \$487 and a decrease in the deficit of \$1,051. The impact of adopting the new standard for the year ended September 30, 2009 resulted in an increase in cost of goods sold of \$678 and a decrease in net earnings of \$471.

CICA 3064 – Goodwill and intangible assets

In February 2008, the CICA issued Handbook section 3064, Goodwill and Intangible Assets, which supersedes section 3062, Goodwill and Other Intangible Assets, and section 3450, Research and Development Costs. This standard 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 1, 2008. The Company adopted this standard for the fiscal year commencing October 1, 2008. The adoption of this standard resulted in the reclassification of computer software costs from property and equipment to intangible assets with a cost and net book value of \$515 and \$286, respectively (notes 9 and 10).

CICA Emerging Issues Committee (“EIC”) 173 – Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA issued EIC Abstract 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. The EIC requires the Company to take into account the Company's own credit risk and the credit risk of the counterparty in determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC 173 is to be applied retrospectively without restatement of prior periods to all financial assets and liabilities measured at fair value in the interim and annual financial statements for periods ending on or after the date of issuance of the Abstract. The Company has early adopted this Abstract, and has concluded that this standard has no material impact on its consolidated financial statements.

4. Future accounting standards

Convergence with International Financial Reporting Standards

In February 2008, the CICA Accounting Standards Board (“AcSB”) confirmed that International Financial Reporting Standards (“IFRS”) will replace Canadian GAAP in 2011 for profit-oriented Canadian publicly accountable enterprises. As the Company will be required to report its results in accordance with IFRS commencing in its fiscal year ending September 30, 2012, the Company is assessing the potential impacts of this changeover and developing a conversion plan which will include: a detailed timeline; further training and education requirements; and the impact on accounting policies, information systems, internal controls over financial reporting and business activities.

During the year ended September 30, 2009, the Company engaged a public accounting firm to assist with the completion of a high-level assessment of the significant differences between Canadian GAAP and IFRS specific to the Company. This high-level assessment commenced in the third quarter of 2009 and was completed by the end of the year. The Company also conducted an initial IFRS awareness training for staff in the fourth quarter of 2009.

CICA 1601 – Consolidated Financial Statements

In January 2009, the CICA issued Handbook section 1601, Consolidated Financial Statements, which replaces the existing standards. This section carries forward existing Canadian guidance for preparing consolidated financial statements other than non-controlling interests. The section is effective for interim and annual financial statements beginning on January 1, 2011 and earlier adoption is permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

CICA 3862 – Financial Statement – Disclosures

In March 2009, the Canadian Accounting Standards Board announced it has agreed to adopt recent amendments to IFRS 7, Financial Instruments: Disclosures, into section 3862, Financial Instruments – Disclosures. The amendments to section 3862 will apply to annual financial statements for years ending after September 30, 2009. The amendments require that an entity disclose the classification, for each class of financial instrument, of fair value measurements within a fair value hierarchy. The hierarchy includes three levels: Level 1 – quoted prices in active markets, Level 2 – measurements determined using valuation models that employ observable inputs and Level 3 – measurements determined using valuation models that employ unobservable inputs. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

Notes to the Consolidated Financial Statements *(continued)*

Years Ended September 30, 2009 and 2008. All amounts are in thousands of Canadian dollars, except share data

5. Short-term investment

Short-term investment consisted of a cashable guaranteed investment certificate ("GIC") purchased on June 30, 2008. The GIC matured on June 30, 2009, and carried an interest rate of 3.25% with interest being paid at maturity. No short-term investments were held by the Company as at September 30, 2009.

	2009	2008
Guaranteed investment certificate	\$ -	\$ 5,081

6. Accounts receivable

	2009	2008
Trade receivables	\$ 6,823	\$ 7,629
Allowance for doubtful accounts	(78)	(58)
	6,745	7,571
Other receivables	415	1,532
Discount and incentive provisions	(3,928)	(2,207)
Return allowances	(296)	(1,019)
Other provisions	(14)	(89)
	2,922	5,788
Reclass net credits in trade receivables	1,919	196
	\$ 4,841	\$ 5,984

Trade receivables are non-interest bearing and are generally on 30-day terms.

The Company identifies impairment of trade receivables through a review of specific accounts and provides an allowance for doubtful accounts based on the excess of their carrying value over their estimated realizable amount. After all efforts of collection have failed, the accounts receivable balance not collected is written off against the allowance for doubtful accounts. At September 30, 2009, trade receivables of \$78 (2008 - \$58) were considered to be impaired and fully provided for. The movement on the provision for impairment of trade receivables for the year is as follows:

	2009	2008
Balance, October 1	\$ 58	\$ 62
Provision for doubtful accounts	80	178
Recovery	(23)	(74)
Amounts written off as uncollectible	(37)	(108)
Balance, September 30	\$ 78	\$ 58

The aging analysis of trade receivables not impaired is as follows:

	Total	< 30 days	30 - 60 days	60 - 90 days	> 90 days
September 30, 2009	\$ 6,745	\$ 4,390	\$ 2,026	\$ 212	\$ 117
September 30, 2008	7,571	4,633	2,739	115	84

Included in the aging analysis are amounts for unapplied credit memos relating to discount and incentive claims, return claims, and other claims which reduce the outstanding trade receivables balance. These amounts are represented in the aging categories as follows <30 days (\$300), 30-60 days (\$84), 60-90 days (nil), >90 days (\$281) (2008 - <30 days (\$117), 30-60 days (\$8), 60-90 days (\$27), >90 days (\$141)).

As at September 30, 2009, three customers (2008 - four) represented 90% (2008 - 73%) of total accounts receivable.

Notes to the Consolidated Financial Statements *(continued)*

Years Ended September 30, 2009 and 2008. All amounts are in thousands of Canadian dollars, except share data

7. Inventory

The Company's inventory is comprised of the following:

	2009	2008
Finished goods	\$ 5,510	\$ 5,222
Work-in-progress	5,975	2,075
Raw and packaging materials	705	1,938
Products shipped with right of return	221	444
	<u>12,411</u>	<u>9,679</u>
Less: non-current portion	-	116
	<u>\$ 12,411</u>	<u>\$ 9,563</u>

The cost of inventory recognized as an expense and included in cost of goods sold, prior to overhead variances, for the year ended September 30, 2009 was \$10,758. Included in cost of goods sold in the year are write-downs of inventory totalling \$1,725. No inventory write-downs recognized in previous periods were reversed.

Included in finished goods and raw and packaging materials inventory is \$235 (2008 - \$31) and \$1 (2008 - \$55), respectively, for promotional products not held for sale.

The Company has pledged inventory as collateral under the terms of the demand operating line of credit and term mortgage.

8. Income taxes

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

	2009	2008
Income taxes and amounts in lieu of income taxes at statutory rates of 30.4% (2008 - 31.7%)	\$ 683	\$ 2,419
Increase (decrease) resulting from:		
Income tax related to previous periods	(73)	46
Non-deductible amounts	194	91
Tax recovery related to intellectual property transfer	-	(176)
Tax rate differences of foreign subsidiaries	(613)	(247)
Non-deductible stock-based compensation	164	203
Change in valuation allowance	322	325
Portion of prepaid intra-group tax asset charged to expense	-	52
Other	266	316
Income tax expense	<u>\$ 943</u>	<u>\$ 3,029</u>

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

	2009	2008
Future income tax assets:		
Non-capital losses carried forward (expiring 2014 to 2027)	\$ 4,468	\$ 3,157
Accounts receivable	105	273
Deferred revenue	210	202
Other tax assets	94	48
	<u>4,877</u>	<u>3,680</u>
Future income tax liabilities:		
Property and equipment	131	83
SRED ITC claim	72	44
Long-term loan	9	14
Other tax liabilities	2	10
	<u>214</u>	<u>151</u>
Net future tax asset	4,663	3,529
Valuation allowance	4,386	3,095
	<u>\$ 277</u>	<u>\$ 434</u>

Notes to the Consolidated Financial Statements *(continued)*

Years Ended September 30, 2009 and 2008. All amounts are in thousands of Canadian dollars, except share data

Presented in the consolidated financial statements as follows:

	2009	2008
Future tax asset - current	\$ 269	\$ 273
Future tax asset - non-current	223	312
Future tax liability - current	(75)	(44)
Future tax liability - non-current	(140)	(107)
	\$ 277	\$ 434

The Company reviews all available positive and negative evidence to evaluate the recoverability of future tax assets. This includes a review of the Company's cumulative losses in recent years, the carryforward period related to the tax losses, and the tax planning strategies available to the Company. The Company has unused tax loss carryforwards in the United States of approximately U.S. \$3,202 which expire between 2027 and 2029, and are available to reduce taxable income in future years. The Company has unused tax loss carryforwards in Switzerland of approximately \$33,000 which are available to reduce taxable income in future years which expire between 2014 and 2015. The benefit of these losses has not been recorded in these consolidated financial statements. They have been fully offset by a valuation allowance.

During the year, the Company recorded the benefit of investment tax credits of \$542 (2008 - \$573) as a reduction in research and development expenses.

9. Intangible assets

<i>Restated (note 3)</i>	Cost	Accumulated amortization	Net book value
September 30, 2009			
Patents	\$ 1,606	\$ 633	\$ 973
Computer software	576	324	252
Website development	213	7	206
Registered trademarks	133	73	60
	\$ 2,528	\$ 1,037	\$ 1,491
September 30, 2008			
Patents	\$ 1,556	\$ 645	\$ 911
Computer software	515	229	286
Registered trademarks	223	106	117
	\$ 2,294	\$ 980	\$ 1,314

During the year ended September 30, 2009, the Company recorded intangible asset amortization expense of \$203 (2008 - \$155) and additions to intangible assets totalled \$465 (2008 - \$473). As at September 30, 2009, the Company conducted an annual review of the carrying value of patents and registered trademarks and determined that there was an impairment of \$85 (2008 - \$28). Impairment is recognized when management believes the carrying value of the asset exceeds its expected future cash flows.

Additions for the year ended September 30, 2009 were \$61 (2008 - \$221) and \$404 (2008 - \$252) for acquired and developed intangible assets, respectively.

10. Property and equipment

<i>Restated (note 3)</i>	Cost	Accumulated amortization	Net book value
September 30, 2009			
Building	\$ 11,386	\$ 1,457	\$ 9,929
Lab equipment	1,286	301	985
Land under capital lease	616	-	616
Furniture and equipment	781	311	470
Computer hardware	503	238	265
Leasehold improvements	35	7	28
Equipment under capital lease	38	24	14
	\$ 14,645	\$ 2,338	\$ 12,307

Notes to the Consolidated Financial Statements (continued)

Years Ended September 30, 2009 and 2008. All amounts are in thousands of Canadian dollars, except share data

Restated (note 3)	Cost	Accumulated amortization	Net book value
September 30, 2008			
Building	\$ 11,307	\$ 614	\$ 10,693
Lab equipment	517	185	332
Land under capital lease	616	-	616
Furniture and equipment	613	212	401
Computer hardware	461	199	262
Leasehold improvements	120	95	25
Equipment under capital lease	94	44	50
Automobiles	45	32	13
	\$ 13,773	\$ 1,381	\$ 12,392

During the year, the Company recorded property and equipment amortization expense of \$1,108 (2008 - \$816), of which \$3 (2008 - \$9) is related to amortization on equipment under capital lease.

11. Long-term debt and other credit facilities

Long-term debt

	2009	2008
On June 16, 2009, the Company renegotiated the term mortgage with interest at the bank's prime lending rate plus 1.25%, an increase of 0.25% over the previous rate, repayable in monthly amounts of \$51 plus interest. Terms of repayment under the renegotiated term mortgage have been extended to July 2012 from July 2011. The unamortized financing costs related to this loan are \$38 (2008 - \$55). Using the effective interest method to determine the carrying value, the effective interest rate is 3.86% (2008 - 6.31%). Repayments were interest only until July 31, 2008.	\$ 5,455	\$ 6,072
Financing loan with interest at 6.99% payable in blended monthly payments of \$8, for 36 months ending in May 2011. The unamortized financing costs related to this loan are nil (2008 - \$2). Using the effective interest rate method to determine the carrying value, the effective interest rate is 7.39% (2008 - 7.24%).	152	244
	5,607	6,316
Less: financing charge	38	55
	5,569	6,261
Less: current portion	706	700
Long-term balance of long-term debt	\$ 4,863	\$ 5,561

Terms and collateral

Term mortgage

The Company may repay the mortgage at any time in whole or in part, subject to a three month interest penalty. The Company's mortgage and demand operating line of credit facilities are subject to certain financial covenants. The facilities agreement contains repayment acceleration clauses that may cause the debt to become due and payable, or the collateral to become immediately enforceable, if certain events of default occur. The acceleration clauses include subjective default events such as any adverse change occurring in the financial condition of the Company, its subsidiaries or its property, equipment or business activities. Management of the Company is not aware of any pending condition that would require accelerated repayment of the bank financing. The Company has pledged as collateral a General Security Agreement constituting a first ranking security interest in all personal property of the Company, a collateral mortgage constituting a first fixed charge on the Company's headquarters and research centre situated on the subleased land.

Financing loan

The loan is unsecured and is not subject to any covenants. The loan can be called by the lender if scheduled repayments are not received within 10 days of their due date.

Notes to the Consolidated Financial Statements *(continued)*

Years Ended September 30, 2009 and 2008. All amounts are in thousands of Canadian dollars, except share data

Absent any demand for partial or full repayment of the obligations, required principal repayments of long-term debt are as follows:

2010	\$	706
2011		681
2012		4,220
Total long-term debt		5,607
Less: amounts representing interest at imputed amounts		38
Carrying value of long-term debt	\$	5,569

At September 30, 2009, the Company has available a \$5,000 (2008 - \$5,000) demand operating line of credit and had drawn nil (2008 - nil). The portion of the line of credit that is available to the Company is based on 75% of accounts receivable aged less than 90 days plus 50% of finished goods inventory for the period from September to February each year or 65% of finished goods inventory for the period from March to August each year to a maximum limit of \$2,500. On June 16, 2009, interest under the available operating line of credit was amended to the bank's prime lending rate plus 0.50% an increase of 0.25% over the previous rate.

Included in the available operating line facility is the ability to issue up to \$1,000 of letters of credit. At September 30, 2009, the Company had one (2008 - two) standby letters of credit in the amount of \$124 (2008 - \$496 and \$124) which will remain in effect until December 1, 2009 (2008 - December 1, 2008 and December 1, 2009, respectively). Standby letters of credit are subject to a charge of 1.75% (2008 - 1.5%) per annum.

Obligations under capital lease

	2009	2008
Land under capital lease at an imputed interest rate of 6.75%. The Company plans to purchase the land on November 30, 2015 for the stated amount of \$1,155. Imputed interest charges for this lease are \$392 (2008 - \$445).	\$ 1,155	\$ 1,155
Capital leases, collateralized by various pieces of equipment with a net book value of \$17 (2008 - \$58), interest varying from 1.3% to 14.0%, with terms varying up to 56 months.		
Interest expense on obligations under capital lease for the year totaled \$3 (2008 - \$3).	27	55
	1,182	1,210
Less: imputed interest charges	392	450
	790	760
Less: current portion	13	14
Long-term portion of obligations under capital lease	\$ 777	\$ 746

Future minimum lease payments for the obligations under capital lease are as follows:

2010	\$	15
2011		9
2012		2
2013		1
2014		-
Thereafter		1,155
Total obligations under capital lease		1,182
Less: amounts representing interest at imputed amounts		392
Carrying value of obligations under capital lease	\$	790

12. Customer deposits

The Company has received customer deposits totalling \$134 (2008 - \$4,255) for product shipped with right of return. As at September 30, 2009, the Company has received inventory returns requiring refund of approximately nil (2008 - \$1,391). The Company has authorized additional inventory returns requiring refund of nil (2008 - \$41) to be delivered subsequent to year end. Inventory returns are not considered payable until the products have passed a quality and verification process.

If the risk of return for the remaining product shipped with the right of return is substantially eliminated, the revenue from the product shipment will be recognized and the liability for the customer deposit eliminated. If the product is returned and cash payment has been made, the customer is entitled to a refund of the deposit. There is no certainty on the amount of deposits that will be recognized as revenue or may require refund.

Notes to the Consolidated Financial Statements *(continued)*

Years Ended September 30, 2009 and 2008. All amounts are in thousands of Canadian dollars, except share data

During the year ended September 30, 2009, the Company entered into agreements with various U.S. customers to eliminate the right of return on remaining product shipped with right of return. This resulted in the Company recognizing revenue for the year ended September 30, 2009 of \$2,359 and cost of goods sold of \$468.

13. Deferred revenue

Deferred revenue relates to long-term deposits as at September 30, 2009 totalling \$180 (2008 - \$180). These deposits require a guaranteed volume of inventory to be available to the customer throughout the duration of the agreement. Revenue may be recognized upon depletion of the inventory.

14. 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, September 30, 2007	104,101,006	\$ 22,876
Exercise of options	3,622,492	543
Recognition of fair value of options exercised	-	301
Balance, September 30, 2008	107,723,498	23,720
Repurchase of common shares for cancellation	(2,810,580)	(619)
Balance, September 30, 2009	104,912,918	\$ 23,101

On October 14, 2008, the Company received approval from the Toronto Stock Exchange to purchase common shares under a normal course issuer bid ("NCIB"). The Company is entitled to purchase up to 5,386,175 common shares, representing 5% of its then issued and outstanding common shares. The initial NCIB commenced on October 16, 2008 and will terminate on October 15, 2009. Subsequent to the year ended September 30, 2009, the Company renewed the NCIB which will allow the Company to acquire up to an additional 5,245,645 common shares until the renewed NCIB expires on October 15, 2010.

During the year ended September 30, 2009, 2,810,580 common shares were repurchased pursuant to the Company's NCIB at a total cost of \$1,115 or \$0.40 per common share. All common shares repurchased were cancelled prior to September 30, 2009, resulting in a reduction in share capital of \$619 and a reduction in contributed surplus of \$496 representing the consideration in excess of stated capital during the year ended September 30, 2009.

(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 shares reserved for issuance under the stock option plan shall not exceed 22,170,442. At September 30, 2009, 8,660,450 (2008 - 4,110,007) common shares remain reserved for issuance under the stock option plan.

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

	2009		2008	
	Number of options outstanding	Weighted average exercise price	Number of options outstanding	Weighted average exercise price
Outstanding, beginning of year	8,585,443	\$ 1.01	10,952,935	\$ 0.89
Exercised	-	-	(3,622,492)	0.15
Granted	1,285,000	0.40	1,910,000	0.62
Expired, cancelled, and forfeited	(5,835,443)	0.93	(655,000)	2.69
Outstanding, end of year	4,035,000	\$ 0.93	8,585,443	\$ 1.01
Exercisable, end of year	1,193,000	\$ 1.56	5,543,443	\$ 0.93

Notes to the Consolidated Financial Statements *(continued)*

Years Ended September 30, 2009 and 2008. All amounts are in thousands of Canadian dollars, except share data

The following table summarizes information about stock options outstanding and exercisable at September 30, 2009:

Exercise price	Number outstanding	Weighted average remaining term (in years)	Options vested	Options not vested
\$0.40	1,155,000	5.5	-	1,155,000
\$0.48	600,000	4.9	150,000	450,000
\$0.68	1,205,000	4.3	241,000	964,000
\$1.24	520,000	1.8	388,000	132,000
\$1.25	45,000	3.9	18,000	27,000
\$2.62	250,000	0.8	200,000	50,000
\$2.84	200,000	0.4	160,000	40,000
\$3.42	10,000	1.4	6,000	4,000
\$4.04	30,000	1.9	18,000	12,000
\$4.32	20,000	1.2	12,000	8,000
	4,035,000		1,193,000	2,842,000

During the year ended September 30, 2009, \$541 (2008 - \$641) was recognized as stock-based compensation expense related to options with a corresponding increase to contributed surplus.

On January 21, 2009, the Board of Directors approved amendments to the options of certain optionees to remove performance-based vesting provisions. As originally granted, the options were subject to both performance-based vesting provisions and time-based vesting provisions. The performance-based vesting provisions related to the achievement of certain financial milestones by the Company.

The actual weighted average fair value of the options issued during the year ended September 30, 2009 was \$0.22 (2008 - \$0.45) as determined using the Black-Scholes option pricing model. The following weighted average assumptions were utilized to calculate the fair value of \$0.22 per common share (2008 - \$0.45):

	2009	2008
Total options granted	1,285,000	1,910,000
Weighted average exercise price	\$0.40	\$0.62
Risk-free interest rate	1.50%	3.50%
Expected life	3.7 years	4.7 years
Vesting period	4.0 years	4.7 years
Expected annual volatility	77%	89%
Dividend yield	-	-

(c) Deferred share units

During the year ended September 30, 2009, the Company issued 242,864 DSUs with fair market value of \$104 and recognized stock-based compensation expense of \$157 (2008 - nil), with a corresponding increase to accounts payable and accruals. Also during the year, 110,016 DSUs were redeemed at an average value of \$0.47 per DSU, resulting in a cash payment of \$52 on redemption. All outstanding DSUs are considered vested at the date of grant. As at September 30, 2009, \$105 (2008 - nil) was recorded in accounts payable and accruals related to the outstanding DSUs.

(d) Restricted share units

During the year ended September 30, 2009, the Company issued 175,000 RSUs with fair market value of \$65 and recognized stock-based compensation expense of \$136 (2008 - nil), with a corresponding increase to other long-term liabilities. As at September 30, 2009, the Company had 175,000 RSUs outstanding, which vest on November 30, 2011.

Notes to the Consolidated Financial Statements *(continued)*

Years Ended September 30, 2009 and 2008. All amounts are in thousands of Canadian dollars, except share data

15. Contributed surplus

During the year ended September 30, changes in the contributed surplus balance are as follows:

	2009	2008
Balance, beginning of year	\$ 8,179	\$ 7,839
Stock-based compensation recognition of fair value of stock options granted to:		
Employees, officers and directors	525	609
Non-employees	16	32
Recognition of fair value of stock options exercised	-	(301)
Consideration in excess of stated capital from the normal course issuer		
Bid (note 14a)	(496)	-
Balance, end of year	\$ 8,224	\$ 8,179

16. Earnings per share

The following table sets forth the computation of basic and diluted earnings per share:

	2009	2008
Net earnings	\$ 1,301	\$ 4,592
Weighted average number of common shares outstanding	106,434,436	106,268,024
Dilutive effect of stock options	12,040	1,189,863
Diluted weighted average number of shares outstanding	106,446,476	107,457,887
Earnings per share		
Basic earnings per share	\$ 0.01	\$ 0.04
Diluted earnings per share	0.01	0.04

17. Amortization

	2009	2008
Intangible assets (note 9)	\$ 203	\$ 155
Property and equipment (note 10)	1,108	816
	\$ 1,311	\$ 971

18. Interest and bank charges

	2009	2008
Interest on long-term debt	\$ 259	\$ 255
Other interest and bank charges	141	504
	\$ 400	\$ 759

19. Related party transactions

Until October 2008, the Company had as part of its management team an individual who was also related to the principal owners of a vendor. During the time the related party relationship existed, the Company expensed \$56 (2008 - \$555) as selling, general and administration costs provided by this vendor for the year ended September 30, 2009.

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 \$5,000 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 expensed in interest and bank charges \$244 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. No further expenses were recognized during the year ended September 30, 2009.

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.

Notes to the Consolidated Financial Statements *(continued)*

Years Ended September 30, 2009 and 2008. All amounts are in thousands of Canadian dollars, except share data

20. Loss on foreign exchange

	2009	2008
Realized gain on foreign currency transactions	\$ (93)	\$ (146)
Unrealized loss on foreign currency translation of foreign operations	275	642
	\$ 182	\$ 496

The foreign currency translation gains and losses primarily represent net gains or losses on the translation of the net assets and liabilities of the Company's integrated foreign operations.

21. Capital disclosures

The Company's objective to manage capital is to safeguard the entity's ability to continue as a going concern so that it can continue to develop and commercialize evidence-based natural 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 financing 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 year.

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 lending 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, 2009, this ratio has increased to 2.73:1 from the September 30, 2008 ratio of 1.97:1. The increase in this ratio from September 30, 2008 is largely due to a significant decrease in customer deposits and the strategic build up of inventory levels which is offset by a decrease in cash and cash equivalents and short-term investments.

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. This ratio is to be maintained below 2.00:1. At September 30, 2009, this ratio was 0.69:1 (2008 - 1.04:1). The decrease in this ratio is primarily due to the decrease in customer deposits and the adoption of the new inventory standard (note 3) resulting in a decrease to the opening deficit and net earnings for the year ended September 30, 2009.

22. Financial instruments

Fair value of financial instruments

The fair value of financial instruments represents the amounts that would have been received from or paid to counterparties, calculated at the reporting date, to settle these instruments. Cash and cash equivalents, short-term investment, accounts receivable, and accounts payable and accruals are financial assets and liabilities that have short periods to maturity and the carrying values contained in the consolidated balance sheets approximate their estimated fair value. The fair values of other financial instruments reflect the Company's best estimate based upon estimated interest rates at which the Company believes it could enter into similar instruments at the consolidated balance sheet dates. These estimates approximate the carrying values of the underlying liabilities.

Management of risks arising from financial instruments

The Company does not use derivative financial instruments. There has been no change with respect to the Company's overall risk exposure during the year ended September 30, 2009.

Market risk

(a) Interest rate risk

Bank indebtedness and term 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's 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 Company's earnings before income taxes of approximately, \$58 for the year ended September 30, 2009 (2008 - \$51). The Company entered into Bankers Acceptance agreements during the year to manage interest rate risk. As at September 30, 2009, no such agreements were in place. The Company has the option to fix the interest rate on its mortgage for the balance of the term or enter into interest rate swaps for a term not to exceed July 31, 2012.

Notes to the Consolidated Financial Statements *(continued)*

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Years Ended September 30, 2009 and 2008. All amounts are in thousands of Canadian dollars, except share data

(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% 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 \$3 for the year ended September 30, 2009 (2008 - \$400). The Company does not use derivative financial instruments to reduce its exposure to foreign exchange risk.

Credit risk

The maximum exposure to credit risk of the Company as at September 30, 2009 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. As at September 30, 2009, three customers (2008 - four) represented 90% of total accounts receivable (2008 - 73%). Included in accounts receivable is an allowance for doubtful accounts of \$78 (2008 - \$58). At September 30, 2009, two customers made up \$67 or 86% (2008 - two customers made up \$41 or 71%) of the allowance for doubtful accounts.

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

23. Change in non-cash operating working capital

	2009	2008
Accounts receivable	\$ 1,143	\$ 654
Inventory	(1,310)	(671)
Prepaid expenses and deposits	(512)	154
Accounts payable and accruals	(1,566)	997
Income taxes receivable	358	698
Customer deposits	(4,121)	(6,120)
	\$ (6,008)	\$ (4,288)

24. 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's operations are carried on in the following geographic locations:

	2009	2008
Revenue		
Canada	\$ 45,233	\$ 47,291
United States	2,359	2,098
	\$ 47,592	\$ 49,389

Geographic information about the Company's revenue is based on the location of the contracting organization.

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

The Company derives significant revenue from certain customers. During the year ended September 30, 2009, four Canadian customers (2008 - four) accounted for \$35,992 or 76% (2008 - \$34,498 or 70%) of the Company's consolidated revenue.

Notes to the Consolidated Financial Statements *(continued)*

Years Ended September 30, 2009 and 2008. All amounts are in thousands of Canadian dollars, except share data

25. Employee savings plan

The Company and its subsidiaries match voluntary contributions made by employees to their Registered Retirement Savings Plans to a maximum of 3% of earnings for each employee. Contributions made by the Company during the year ended September 30, 2009 were \$227 (2008 - \$179).

26. Commitments and Contingencies

Commitments

At September 30, 2009, the Company's contractual obligations for the next five years and thereafter are as follows:

	2010	2011	2012	2013	2014	Thereafter	Total
Long-term debt	\$ 706	\$ 681	\$ 4,220	\$ -	\$ -	\$ -	\$ 5,607
Obligations under capital lease	15	9	2	1	-	1,155	1,182
Leased premises	126	181	162	162	162	895	1,688
Other operating lease payments, sponsorships and other	2,406	746	281	-	-	-	3,433
	\$ 3,253	\$ 1,617	\$ 4,665	\$ 163	\$ 162	\$ 2,050	\$ 11,910

The Company has entered into agreements to lease premises in Toronto and Montreal, Canada. These leases expire at various dates up to February 29, 2020. The Company has various operating leases, sponsorship agreements and other commitments made in the normal course of business, including the Company's commitment with the Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games ("VANOC"), for a four-year Official Supplier partnership with VANOC.

Contingencies

The Company and certain of its officers and former directors were named as defendants in two concurrent class action lawsuits. These two actions were filed in the Ontario Superior Court of Justice and Alberta. The lawsuits, brought on behalf of shareholders who purchased the Company's common shares between December 11, 2006 and March 23, 2007, allege primarily that the audited consolidated financial statements for the year ended September 30, 2006 and unaudited consolidated financial statements for the quarter ended December 31, 2006 were false and misleading and claim damages of \$110,000. A national law firm, Stikeman Elliott LLP, has been retained to represent the Company and certain officers and directors.

On September 16, 2009, the Company announced it has reached an agreement in principle, subject to court approval, to settle the proposed class action lawsuits. These claims remain unproven and the actions have not received court approval. The agreement in principle provides for the settlement, release and dismissal of all claims asserted against the Company, its former auditor and the individual proposed defendants. The Company's anticipated contribution to the settlement amount is to be funded through its insurance coverage. The agreement in principle remains subject to final settlement documents and receipt of court approval. The settlement does not constitute any admission of liability by the Company or its officers, directors and employees.

On August 6, 2009, the Company announced that it had reached a settlement with the Alberta Securities Commission ("ASC") in respect of an investigation of the Company and certain of its present and former directors and officers. Pursuant to the terms of the settlement agreement, the Company has paid a total of \$740, inclusive of investigation costs, to the ASC in final settlement of the matter for the Company and the directors and officers. This amount has been recorded in selling, general and administration expenses for the year.

At September 30, 2009, the Company was involved in various other legal claims in the normal course of operations. Management has reviewed the claims and believes that it has adequately provided for provisions where required related to these legal claims.

27. Cyclical nature of business

Revenue from the Company's lead products is greater in the first, second and fourth quarters of the fiscal year.

Notes to the Consolidated Financial Statements *(continued)*

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Years Ended September 30, 2009 and 2008. All amounts are in thousands of Canadian dollars, except share data

28. Corporate restructuring

In November 2007, the Board of Directors approved management's proposal to modify the Company's international structure. In 2008, management simplified the corporate structure with the formation of a new foreign company, fx Life Sciences AG, that will result in dissolving fx Life Sciences International GmbH. As a result of the Company's international restructuring, \$1,930 was held in a foreign bank account and was not available for use. These funds became available for use on October 9, 2008. fx Life Sciences International GmbH is inactive as a result of restructuring and will likely be dissolved in the next fiscal year.

29. Comparative figures

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the current year consolidated financial statements.

30. Subsequent event

On October 14, 2009, the Company renewed its normal course issuer bid ("NCIB") with the Toronto Stock Exchange ("TSX"). Under the NCIB, in the next twelve months, the Company may acquire up to 5,245,645 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 19,453 common shares, other than block purchase exceptions, based on an average daily trading volume for the last six calendar months of 77,812 common shares. Any shares acquired by the Company will be cancelled. The NCIB commenced on October 16, 2009 and will terminate on October 15, 2010 or such earlier time as the bid is completed or terminated at the option of the Company.