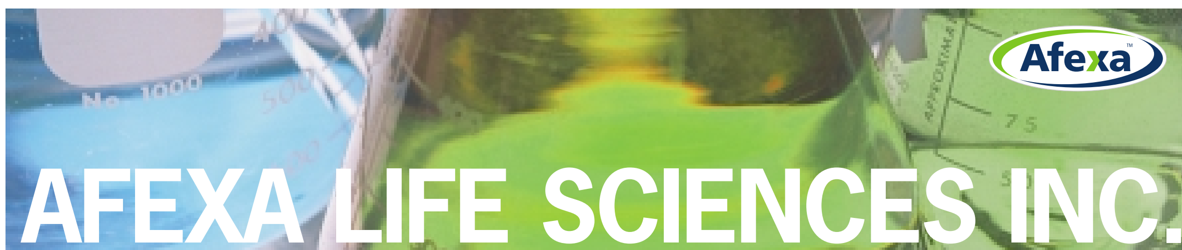

THIRD QUARTER REPORT

CONSOLIDATED FINANCIAL STATEMENTS

For the nine month period ended June 30, 2009

(unaudited)

CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars)
(unaudited)

	June 30, 2009	September 30, 2008
ASSETS		
Current		
Cash and cash equivalents	$ 5,976	$ 4,315
Short-term investment	–	5,081
Accounts receivable (note 3)	1,845	5,788
Inventory (note 2)	13,647	9,563
Prepaid expenses and deposits	1,757	237
Current income taxes receivable	2,924	2,459
Future income taxes	246	273
	26,395	27,716
Inventory, non-current (note 2)	8	116
Patents and registered trademarks	1,056	1,028
Property and equipment	12,552	12,678
Future income taxes	164	312
	$ 40,175	$ 41,850
LIABILITIES		
Current		
Accounts payable and accruals (note 4c)	$ 9,567	$ 8,961
Customer deposits	3,297	4,255
Current portion of long-term debt	705	700
Future income taxes	128	44
Current portion of obligations under capital lease	13	14
	13,710	13,974
Long-term debt (note 8)	5,041	5,561
Obligations under capital lease	773	746
Deferred revenue	180	180
Other long-term liabilities (note 4d)	65	–
Future income taxes	120	107
	19,889	20,568
SHAREHOLDERS' EQUITY		
Share capital (note 4a)	23,176	23,720
Contributed surplus (note 5)	8,157	8,179
Deficit	(11,047)	(10,617)
	20,286	21,282
	$ 40,175	$ 41,850

Commitments and contingency (notes 11 and 13)

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF (LOSS) EARNINGS AND COMPREHENSIVE (LOSS) INCOME AND DEFICIT

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

	Three month period ended June 30		Nine month period ended June 30	
	2009	2008	**2009**	2008
Revenue	**$ 6,195**	$ 3,355	**$ 32,035**	$ 35,345
Cost of goods sold	**867**	1,455	**9,490**	10,110
	5,328	1,900	**22,545**	25,235
Operating expenses				
Selling, general and administration (note 15)	**5,042**	3,612	**19,245**	14,925
Research and development	**929**	718	**2,514**	1,944
Amortization (note 6)	**326**	303	**956**	672
Stock-based compensation (note 4b, 4c and 4d)	**360**	280	**535**	809
(Gain) loss on foreign exchange	**(195)**	42	**400**	446
Interest and bank charges (note 7)	**94**	233	**321**	476
	6,556	5,188	**23,971**	19,272
(Loss) earnings before other items and income taxes	**(1,228)**	(3,288)	**(1,426)**	5,963
Other items				
Interest revenue	**43**	130	**181**	256
Other (expenses) revenue	**(10)**	23	**(10)**	84
	33	153	**171**	340
(Loss) earnings before income taxes	**(1,195)**	(3,135)	**(1,255)**	6,303
Income tax (recovery) expense				
Current	**(182)**	(1,107)	**423**	2,186
Future	**107**	(58)	**(197)**	56
	(75)	(1,165)	**226**	2,242
Net (loss) earnings and comprehensive (loss) income	**(1,120)**	(1,970)	**(1,481)**	4,061
Deficit, beginning of period	**(9,927)**	(9,178)	**(10,617)**	(15,209)
Adjustment (note 2)	**–**	–	**1,051**	–
Adjusted deficit, beginning of period	**(9,927)**	(9,178)	**(9,566)**	(15,209)
Deficit, end of period	**$ (11,047)**	$ (11,148)	**$ (11,047)**	$ (11,148)
(Loss) earnings per share				
Basic	**$ (0.01)**	$ (0.02)	**$ (0.01)**	$ 0.04
Diluted	**(0.01)**	(0.02)	**(0.01)**	0.04
Weighted average number of shares outstanding				
Basic	**105,303,268**	107,723,498	**106,851,088**	105,779,325
Diluted	**105,303,268**	107,723,498	**106,851,088**	107,394,509

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)
(unaudited)

	Three month period ended June 30		Nine month period ended June 30	
	2009	2008	**2009**	2008
Operating activities				
Net (loss) earnings and comprehensive (loss) income	**$ (1,120)**	$ (1,970)	**$ (1,481)**	$ 4,061
Items not affecting cash				
Stock-based compensation (note 4b, 4c and 4d)	**360**	280	**535**	809
Future income taxes	**107**	(58)	**(197)**	56
Capital lease interest	**2**	11	**2**	23
Amortization (note 6)	**326**	303	**956**	672
Accreted interest on land under capital lease	**13**	12	**37**	35
Amortization of prepaid intra-group tax assets	**–**	–	**–**	52
Loss on disposal of property and equipment	**9**	–	**9**	–
Write down of patents and registered trademarks	**10**	–	**10**	–
	(293)	(1,422)	**(129)**	5,708
Change in non-cash operating working capital	**(2,644)**	1,170	**(1,353)**	1,438
Change in non-current deferred revenue	**–**	(5)	**–**	509
Change in non-current inventory	**12**	(797)	**108**	5,136
Cash (used in) provided by operating activities	**(2,925)**	(1,054)	**(1,374)**	12,791
Investing activities				
Purchase of property and equipment	**(165)**	(558)	**(468)**	(3,628)
Purchase of patents and registered trademarks	**(11)**	(143)	**(57)**	(211)
Proceeds on disposal of property and equipment	**18**	–	**18**	–
Purchase of short-term investment	**–**	(9,024)	**–**	(9,024)
Redemption of short-term investment	**5,042**	–	**5,042**	–
Cash provided by (used in) investing activities	**4,884**	(9,725)	**4,535**	(12,863)
Financing activities				
Repayment of obligations under capital lease	**(2)**	(3)	**(9)**	(8)
Issuance of share capital (note 4a)	**–**	316	**–**	543
Share purchase under normal course issuer bid (note 4a)	**(20)**	–	**(967)**	–
Issuance of long-term debt	**–**	392	**–**	2,734
Repayment of long-term debt	**(174)**	–	**(524)**	–
Repayment of bank indebtedness	**–**	–	**–**	(2,039)
Cash (used in) provided by financing activities	**(196)**	705	**(1,500)**	1,230
Increase (decrease) in cash and cash equivalents	**1,763**	(10,074)	**1,661**	1,158
Cash and cash equivalents:				
Beginning of period	**4,213**	13,935	**4,315**	2,703
End of period	**$ 5,976**	$ 3,861	**$ 5,976**	$ 3,861
Supplemental cash flow information:				
Interest paid	**$ 94**	$ 129	**$ 321**	$ 263
Interest received	**128**	130	**181**	256
Income taxes paid	**769**	51	**2,761**	739
Property and equipment additions				
- financed by obligations under capital lease	**–**	12	**–**	52
- included in accounts payable and accruals at period end	**348**	556	**348**	556

See accompanying notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Nine month period ended June 30, 2009. All amounts are in thousands of Canadian dollars, except share data. (unaudited)

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

On April 1, 2009, CV Technologies Inc. announced that it changed its name to Afexa Life Sciences Inc. (the "Company"). The change was approved by shareholders at the Company's Annual General 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®.

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") on a basis consistent with those used in the preparation of the most recent annual consolidated financial statements except as explained in notes 2, 4c and 4d. These unaudited interim consolidated financial statements do not include all the information and disclosures required for annual financial statements and should be read in conjunction with the Company's consolidated financial statements for the year ended September 30, 2008. In management's opinion, these interim consolidated financial statements include all adjustments necessary to present fairly such interim financial information.

The consolidated statements of (loss) earnings and comprehensive (loss) income and deficit, and cash flows for interim periods are not necessarily indicative of results on an annual basis due to seasonal and short-term variations. Revenue from the Company's lead product is greater in the first and fourth quarters of the fiscal year. The sales of this product exhibit a seasonal pattern tied to the frequency and severity of colds and flu.

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 period presented. Actual results could differ from these estimates.

2. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

Inventory

Effective October 1, 2008, the Company adopted the provisions of the Canadian Institute of Chartered Accountants ("CICA") Handbook section 3031, Inventories. 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.

The new standard has been applied retroactively without restatement. 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 three and nine month periods ending June 30, 2009 resulted in a decrease in cost of goods sold of $482 and $617 and an increase in net earnings of $336 and $430, respectively.

Inventories of raw materials 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. 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.

The cost of inventory recognized as an expense and included in cost of goods sold, prior to overhead variances, for the three and nine month periods ended June 30, 2009 was $1,156 and $9,780, respectively. Included in cost of goods sold in the three and nine month periods are write-downs of inventory totalling $139 and $999, respectively. No inventory write-downs recognized in previous periods were reversed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

Nine month period ended June 30, 2009. All amounts are in thousands of Canadian dollars, except share data. (unaudited)

The Company's inventory is comprised of the following:

	June 30 2009	September 30 2008
Finished goods	$ 6,845	$ 5,222
Work-in-progress	5,281	2,075
Product shipped with right of return	303	444
Raw and packaging materials	1,226	1,938
	13,655	9,679
Less non-current portion	8	116
	$ 13,647	$ 9,563

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

Goodwill and intangible assets

The CICA has issued Handbook Section 3064, Goodwill and intangible assets which establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets by profit-oriented enterprises. This section applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. The Company adopted this section for its fiscal year beginning October 1, 2008. The adoption of this standard did not have a material impact on its interim consolidated financial statements.

Recent accounting pronouncements

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 starting for 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 quarter ended June 30, 2009, the Company engaged a major 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 will be complete by the end of the fourth quarter of 2009. Subsequent to the end of the third quarter, the Company also conducted initial IFRS awareness training for staff.

3. ACCOUNTS RECEIVABLE

	June 30 2009	September 30 2008
Trade receivables	$ 2,419	$ 7,629
Allowance for doubtful accounts	(40)	(58)
	2,379	7,571
Other receivables	507	1,532
Discount and incentive provisions	(4,115)	(2,207)
Return allowances	(284)	(1,019)
Other provisions	(21)	(89)
	(1,534)	5,788
Reclass of net credits in trade accounts receivable	3,379	–
	$ 1,845	$ 5,788

4. SHARE CAPITAL

Authorized:

Unlimited number of voting common shares with no par value

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

Nine month period ended June 30, 2009. All amounts are in thousands of Canadian dollars, except share data. (unaudited)

(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
Share repurchase via normal course issuer bid	(2,470,730)	(544)
Balance, June 30, 2009	105,252,768	$ 23,176

On October 14, 2008, the Company received regulatory approval under Canadian securities laws 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 NCIB commenced on October 16, 2008 and will terminate on October 15, 2009.

During the three and nine month periods ended June 30, 2009, 50,500 and 2,470,730 common shares were repurchased pursuant to the Company's NCIB for a total of $20 and $967 or $0.39 and $0.39 per common share, respectively. All common shares repurchased were cancelled prior to June 30, 2009, resulting in a reduction in share capital of $11 and $544; and a reduction in contributed surplus of $9 and $423 representing the consideration in excess of share capital during the three and nine month periods.

(b) Stock-based compensation 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 proportional to the number of vesting periods, based on the anniversary date of the options granted. The continuity of the Company's outstanding and exercisable options are as follows:

	Nine month period ended June 30, 2009		Year ended September 30, 2008	
	Number of options outstanding	**Weighted average exercise price**	Number of options outstanding	Weighted average exercise price
Outstanding, beginning of period	**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	**(5,207,443)**	**0.88**	(655,000)	2.69
Outstanding, end of period	**4,663,000**	**$ 0.98**	8,585,443	$ 1.01
Exercisable, end of period	**1,291,600**	**$ 1.51**	5,543,443	$ 0.93

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

Exercise prices	Number outstanding	Weighted average remaining term (in years)	Options vested	Options not vested
$0.40	1,205,000	5.7	–	1,205,000
$0.48	600,000	5.2	–	600,000
$0.50	250,000	–	250,000	–
$0.57	143,000	0.1	143,000	–
$0.68	1,208,000	4.5	241,600	966,400
$1.24	522,000	2.0	196,000	326,000
$1.25	45,000	4.1	9,000	36,000
$2.62	250,000	1.1	150,000	100,000
$2.84	220,000	0.7	176,000	44,000
$3.29	160,000	1.9	96,000	64,000
$3.42	10,000	1.7	6,000	4,000
$4.04	30,000	2.2	12,000	18,000
$4.32	20,000	1.4	12,000	8,000
	4,663,000		1,291,600	3,371,400

During the three and nine month periods ended June 30, 2009, $226 and $401, respectively (2008 – $280 and $809) were recognized as stock-based compensation expense related to options with a corresponding increase to contributed surplus.

On January 21, 2009, the Board 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 nine month period ended June 30, 2009 was $0.22 (June 30, 2008 – $0.60) 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 share (2008 - $0.60):

	Nine month period ended	
	June 30, 2009	June 30, 2008
Total options granted	1,285,000	1,310,000
Exercise price	$0.40	$0.68
Risk-free interest rate	1.50%	4.00%
Expected Life	3.7 years	6 years
Vesting period	4 years	6 years
Expected annual volatility	77%	125%
Dividend yield	–	–

(c) Deferred share units

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 cost of the DSU is equal to the fair market value at the date of grant. Compensation expense is recognized in earnings on the date of grant as no vesting periods apply. Changes in the amount of the liability due to stock price changes after the initial grant date are recognized as stock-based compensation expense of the period in which the changes occur.

During the three month period ended June 30, 2009, the Company issued 188,420 DSUs with fair market value of $69 and recognized stock-based compensation expense of $69 (2008 – $nil), with a corresponding increase to accrued liabilities. All outstanding DSUs are considered vested at the date of grant.

(d) Restricted share units

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 cost of the RSU is equal to the fair market value 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. Changes in the amount of the liability due to stock price changes after the initial grant date are recognized as stock-based compensation expense of the period in which the changes occur.

During the three month period ended June 30, 2009, the Company issued 175,000 RSUs with fair market value of $65 and recognized stock-based compensation expense of $65 (2008 – $nil), with a corresponding increase to other long-term liabilities. As at June 30, 2009, the Company had 175,000 RSUs outstanding, which vest in 2.4 years.

5. CONTRIBUTED SURPLUS

During the year, contributed surplus has changed as follows:

	Nine month period ended	Year ended
	June 30, 2009	September 30, 2008
Balance, beginning of period	**$ 8,179**	$ 7,839
Stock-based compensation recognition of fair value of stock options granted to:		
Employees, officers and directors	**387**	609
Non-employees	**14**	32
Recognition of fair value of stock options exercised	**–**	(301)
Consideration in excess of par value from the normal course issuer bid	**(423)**	–
Balance, end of period	**$ 8,157**	$ 8,179

6. AMORTIZATION

	Three month period ended June 30		Nine month period ended June 30	
	2009	2008	**2009**	2008
Patents and registered trademarks	**$ 25**	$ 24	**$ 74**	$ 68
Property and equipment	**301**	279	**882**	604
	$ 326	$ 303	**$ 956**	$ 672

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

Nine month period ended June 30, 2009. All amounts are in thousands of Canadian dollars, except share data. (unaudited)

7. INTEREST AND BANK CHARGES

	Three month period ended June 30		Nine month period ended June 30	
	2009	2008	**2009**	2008
Interest on long-term debt	**$ 55**	$ 74	**$ 202**	$ 155
Other interest and bank charges	**39**	159	**119**	321
	$ 94	$ 233	**$ 321**	$ 476

8. LONG-TERM DEBT AND OTHER CREDIT FACILITIES

The Company renewed and amended the terms of its mortgage and credit facilities on June 16, 2009. The term mortgage interest rate was amended to bank prime lending rate plus 1.25% (2008 – bank prime lending rate plus 1.0%) repayable in monthly amounts of $51 plus interest. The term has also been extended to July 2012 from July 2011. Using the effective interest method to determine the carrying value, the effective interest rate is 3.88% (2008 – 6.31%).

At June 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 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 bank prime lending rate plus 0.50% (2008 – bank prime lending rate plus 0.25%).

Included in the available operating line facility is the ability to issue up to $1,000 of letters of guarantee. At June 30, 2009, the Company had one (2008 – two) standby letter 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.

9. 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 $nil (June 30, 2008 – $139 and $412) as selling, general and administration costs provided by this vendor for the three and nine month periods ended June 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 three and nine month periods ended June 30, 2008, the Company expensed in interest and bank charges $75 and $225 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 three and nine month periods ended June 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.

10. 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 period.

The Company monitors capital on the basis of the current ratio and debt to tangible net worth ratio which are both financial covenants of 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 June 30, 2009, this ratio is 1.93:1 comparable with the September 30, 2008 ratio of 1.98:1. The decrease in this ratio from September 30, 2008 is largely due to an increase in accounts payable and a decrease in cash and cash equivalents and accounts receivable. This ratio was offset by the build up of inventory in anticipation of sales for the upcoming cold and flu season.

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 June 30, 2009, this ratio was 1.04:1 (September 30, 2008 – 1.02:1). The increase in this ratio is primarily due to losses incurred to June 30, 2009, offset partially by the 2009 adoption of the new inventory standard (note 2) resulting in a decrease to the opening deficit.

11. 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 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 financial derivatives. There has been no change with respect to the Company's overall risk exposure during the three and nine month periods ended June 30, 2009.

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 Company's earnings before income tax of approximately $14 for the three month period and $41 for the nine month period ended June 30, 2009. 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 or enter into interest rate swaps for terms not exceeding three years.

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 tax of approximately $300 for the nine month period ended June 30, 2009. 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 June 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 June 30, 2009, two customers (September 30, 2008 – four) represented 49% of total accounts receivable (September 30, 2008 – 73%). Included in accounts receivable is an allowance for doubtful accounts of $40 (September 30, 2008 – $58). At June 30, 2009, one customer made up $31 or 76% (September 30, 2008 – two customers at $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.

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

	12 month period ending June 30					
	2010	2011	2012	2013	2014	Total
Long-term debt	$ 715	$ 715	$ 4,374	$ –	$ –	$ 5,804
Obligations under capital lease	16	12	5	3	1,155	1,191
Leased premises	150	49	5	–	–	204
Raw materials	572	–	–	–	–	572
Operating lease payments, sponsorships and other	2,298	946	272	–	–	3,516
	$ 3,751	$ 1,722	$ 4,656	$ 3	$ 1,155	$ 11,287

The Company has entered into agreements to lease premises in Toronto and Montreal, Canada. These leases expire at various dates ranging up to September 30, 2011. In the normal course of business, the Company purchases raw materials for use in its operations. The Company has entered into a fixed quantity supply agreement with one of its suppliers. 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.

12. 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:

	Three month period ended June 30		Nine month period ended June 30	
	2009	2008	**2009**	2008
Revenue				
Canada	**$ 6,105**	$ 3,286	**$ 31,027**	$ 34,414
United States	**90**	69	**1,008**	931
	$ 6,195	$ 3,355	**$ 32,035**	$ 35,345

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

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

The Company derives significant revenue from certain customers. During the three month period ended June 30, 2009, two Canadian customers (June 30, 2008 – four) accounted for $1,807 or 30% (June 30, 2008 – $2,556 or 76%) of the Company's consolidated revenue. During the nine month period ended June 30, 2009, three major customers (June 30, 2008 – four) accounted for $18,343 or 57% (June 30, 2008 – $25,539 or 72%) of the Company's consolidated revenue.

13. CONTINGENCY

The Company and certain of its officers and 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. The matters raised in the lawsuits contain unproven allegations that will be vigorously defended, although no assurances can be given with respect to the outcome of such proceedings. The Company has not recorded any liability relating to these matters. Management believes that the Company's directors and officers insurance policy provides for reimbursement for costs and expenses incurred in connection with this lawsuit as well as potential damages awarded, if any, subject to certain policy limits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

Nine month period ended June 30, 2009. All amounts are in thousands of Canadian dollars, except share data. (unaudited)

14. 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.

15. SUBSEQUENT EVENTS

On July 31, 2009, the Company negotiated an agreement with one major United States customer eliminating the customer's right of return. Based on this agreement, an acceleration of revenue recognition will occur in the fourth quarter of 2009. No amounts related to this agreement have been recognized in the June 30, 2009 consolidated financial statements.

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. The investigation related to specific accounting and associated disclosure matters arising in connection with the restatement of the Company's audited consolidated financial statements for the fiscal year ended September 30, 2006 and the unaudited consolidated financial statements for the first quarter of fiscal 2007. 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 certain of its directors and officers. This amount has been recorded in selling, general and administration expenses during the three month period ended June 30, 2009.