



## THIRD QUARTER REPORT

For the nine month period ended June 30, 2009

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Advisory Regarding Forward-Looking Statements

Management's discussion and analysis ("MD&A") contains certain forward-looking statements and information within the meaning of applicable securities laws, which reflect current expectations of the management of Afexa Life Sciences Inc. ("Afexa" or the "Company") regarding future events or the Company's future performance, including, without limitation, statements relating to the timing and/or initiation of clinical trials, clinical trial results, introduction of new products and associated regulatory clearances, economic or financial trends or expectations, financing, acceptance of the Company's products in the marketplace and the hiring or retention of personnel. Forward-looking statements are often, but not always, identified by the use of words such as "expect", "anticipate", "seek", "aim", "continue", "estimate", "objective", "ongoing", "may", "will", "would", "project", "could", "should", "might", "believe", "plans", "targets", "intends" and similar expressions. All statements other than statements of historical fact contained in this MD&A may be forward-looking statements. The forward-looking information included in this document does not guarantee future performance and should not be unduly relied upon. Such information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information, including, without limitation, the impact of competition; consumer confidence and spending levels; general economic conditions; interest and currency exchange rates; unseasonable weather patterns; the cost and availability of capital; the cost and availability of grants/funding; product development uncertainties and labour market challenges. The Company believes that the expectations and assumptions reflected in the forward-looking information and statements contained herein are reasonable but no assurance can be given that these expectations and assumptions are correct and that the results, performance or achievements expressed in, or implied by, forward-looking statements herein will occur, or if they do, that any benefits may be derived from them. The Company assumes no duty to update or revise forward-looking information, except as may be required pursuant to applicable laws. All forward-looking statements are expressly qualified in their entirety by this cautionary statement.

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

### Other Advisories Regarding this Report

The following MD&A for the three and nine month periods ended June 30, 2009 for Afexa, prepared as at August 12, 2009, should be read in conjunction with the Company's MD&A, audited consolidated financial statements and accompanying notes for the year ended September 30, 2008. The MD&A contains disclosure of material changes occurring up to and including August 12, 2009. The consolidated financial statements of Afexa are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are reported in Canadian dollars. All references to GAAP refer to Canadian generally accepted accounting principles. These accounting principles require the Company to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosure of contingent assets and liabilities. Management believes that the estimates and assumptions, which it relies upon, are reasonable based on information available at the time that these estimates and assumptions were made. These estimates and assumptions have been discussed with the Audit Committee of the Board of Directors of Afexa. Actual results may differ under different assumptions and conditions.

Additional information on the Company, including the Company's most recently filed Annual Information Form, MD&A and audited financial statements, is available at [www.sedar.com](http://www.sedar.com).

**MANAGEMENT'S DISCUSSION AND ANALYSIS** *(continued)***COMPANY OVERVIEW**

Afexa Life Sciences Inc. is a life sciences and technology company, founded in 1992 and headquartered in Edmonton, Alberta, Canada. The Company has developed, commercialized and patented a proprietary technology, known as ChemBioPrint®, which is used in the discovery and standardization of natural products that deliver consistent, verifiable and provable health benefits. Using the ChemBioPrint® discovery and standardization platform, the Company's scientists are able to identify precisely the chemical profile and biological activity of natural products. The process involves a combination of chemical and biological fingerprinting to ensure that the creation and scientific substantiation of its natural health products is safe, effective and consistent. The Company is committed to using a pharmaceutical model (involving rigorous drug discovery and testing methods) to develop natural therapeutics for health maintenance and disease prevention. Its efforts in scientific research and product innovation are key factors in enabling the Company to secure the trust of consumers, trade professionals, healthcare practitioners and government. The Company's lead product, COLD-FX®, is designed to aid in the prevention and relief of colds and flu by strengthening the immune system. COLD-FX® continues to be the number one selling cold and flu remedy in Canada (source: The Nielsen Company MarketTrack National all channel service for the categories of Cold Remedies and Supplements and Products, 52 weeks ending July 4, 2009).

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

**RECENT EVENTS****Olympic sponsorship**

On January 20, 2009, the Company announced it entered into an agreement with the Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games ("VANOC"). The agreement provides the Company exclusive sponsorship rights in Canada in the "Over the Counter Cold and Flu Remedy" product category. COLD-FX®'s four year Official Supplier partnership with VANOC provides sponsorship rights for the 2010 Winter Games. As part of the sponsorship, the Company will make a financial contribution to the Games and will also provide COLD-FX® to VANOC for its distribution. During the 2010 Winter Games, COLD-FX® will be available at general stores within the Olympic and Paralympic Villages in Vancouver and Whistler. COLD-FX® will also serve as an Official Supplier for the Canadian Olympic Teams competing at the 2010 Winter Games and the London 2012 Olympic Games. To leverage the sponsorship agreement, in addition to the Company's ongoing relationship with the seven Olympic sport centers across Canada, the Company has also sponsored a number of Olympic athletes including, Clara Hughes, five time Olympic medalist and world champion speed skater, Joannie Rochette, five time Canadian figure skating champion and world championship silver medalist, Paul Rosen, Olympic gold medalist and four time ice sledge hockey world champion, Chandra Crawford, Olympic gold medalist cross country skier, and Steve Omischl, three time Canadian champion and world cup freestyle aerial skier. The Company has also entered into official supplier arrangements with Alpine Canada, the Canadian Snow Sports Association and Canadian Ski Cross Team and commissioned David Arrigo as an official painter to capture the Olympic events while promoting the Company's product.

**Corporate re-branding**

On April 1, 2009, the Company announced that it changed its name from CV Technologies Inc. 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 the Company's common shares traded under 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®.

**MANAGEMENT'S DISCUSSION AND ANALYSIS** *(continued)***International distribution**

On June 22, 2009, the Company announced it entered into an agreement with a Hong Kong based health care company to market and distribute its COLD-FX® product exclusively in the Hong Kong and Macau markets. The Company expects shipments to the Hong Kong marketplace to start in the current fiscal year, in time for that region's next cold and flu season.

**HIGHLIGHTS**

Combined retailer sales to consumers ("consumption") of regular and extra strength COLD-FX® have increased 10%, for the 52 weeks ended July 4, 2009, as compared to the corresponding period in 2008, per point of sales data received from The Nielsen Company. The Company remains the number one selling cold and flu remedy in Canada for the 52 week period ended July 4, 2009.

Revenue for the three months ended June 30, 2009 of \$6.2 million is \$2.8 million higher than the three month period ended June 30, 2008. The increase in revenue is due to restocking by the Company's retail customers subsequent to lower purchases being made in the prior quarter. In the second quarter of 2009, retailers had significantly reduced inventory positions across their stores including Afexa's products with the goal of retaining cash in uncertain economic times. Coinciding with the recent announcements related to H1N1 reaching pandemic status, retailers began stocking COLD-FX®, potentially in anticipation of increased demand. Margins in the quarter increased to 86.0% from 56.6% primarily due to the allocation of inventory overheads in a period where the Company was building inventory levels and due to higher revenue which averages down fixed manufacturing and logistics overheads which are recorded to cost of goods sold. Major initiatives being reviewed by management include the following:

- Although COLD-FX® has not been specifically tested on strains of the H1N1 virus, the Company has numerous clinical trials showing COLD-FX®'s effectiveness on reducing the incidence and severity of flu, in addition to colds. The Company is analyzing how best to position its products, given the recent pandemic status of H1N1, without contravening any Health Canada or advertising regulations.
- The Company continues to execute on its Olympic sponsorship plans and has built certain sku's of its product with Olympic packaging and promotional material. Shipments of this product have commenced in the fourth quarter of 2009.

A net loss of \$1.1 million was incurred in the third quarter as compared to a net loss of \$2.0 million in the third quarter of 2008. Increased revenue and margin in the third quarter of 2009 in a period where seasonal revenue is typically low allowed for the lower than anticipated loss in the quarter. The higher revenue and margin were partially offset by increased general and administrative costs. There were costs in the quarter totaling \$1.1 million related to legal, professional and settlement costs associated with an agreement reached with the Alberta Securities Commission and \$0.6 million related to severance costs.

The Company continues to maintain a strong combined cash, cash equivalents and short-term investments balance of \$6.0 million at June 30, 2009, a reduction of \$3.4 million from September 30, 2008. Inventory has increased from September 30, 2008 by \$4.0 million to \$13.7 million at June 30, 2009 in anticipation of shipments for the upcoming cold and flu season.

**MANAGEMENT'S DISCUSSION AND ANALYSIS** (continued)

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**Summary of consolidated financial results**

The following table summarizes key financial data and should be read in conjunction with the Company's June 30, 2009 quarterly financial statements. Such financial statements are prepared in accordance with GAAP and are reported in Canadian dollars.

**Summary of consolidated financial results**

(in thousands except for per share amounts)	Three months ended June 30		Nine months ended June 30	
	2009	2008	2009	2008
Revenue	\$ 6,195	\$ 3,355	\$ 32,035	\$ 35,345
EBITDA <sup>1</sup>	(818)	(2,729)	(159)	7,195
Net (loss) earnings	(1,120)	(1,970)	(1,481)	4,061
(Loss) earnings per common share - basic	(0.01)	(0.02)	(0.01)	0.04
(Loss) earnings per common share - diluted	(0.01)	(0.02)	(0.01)	0.04
Cash flow prior to working capital changes <sup>1</sup>	(293)	(1,422)	(129)	5,708

	As at June 30, 2009	As at September 30, 2008
Working capital <sup>1</sup>	\$ 12,685	\$ 13,742
Total assets	40,175	41,850
Total long-term debt and obligations under capital lease (including current portion)	6,532	7,021
Shareholders' equity	20,286	21,282

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

<sup>1</sup> EBITDA, cash flow prior to working capital changes and working capital are non-GAAP measures and may not be comparable to similar measures presented by other issuers. Reconciliations of these measures to the most directly comparable financial measure calculated and presented in accordance with Canadian GAAP along with explanations as to why they are used is provided below in the "Non-GAAP Financial Measures and Reconciliations" section.

**NON-GAAP FINANCIAL MEASURES AND RECONCILIATIONS**

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

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

**Working capital**

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS** (continued)

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**Working capital**

(in thousands)

	<b>As at</b> <b>June 30, 2009</b>	As at September 30, 2008
Current assets	\$ 26,395	\$ 27,716
Current liabilities	13,710	13,974
Working capital	\$ 12,685	\$ 13,742

**EBITDA**

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

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

**EBITDA**

(in thousands)

	Three months ended June 30		Nine months ended June 30	
	<b>2009</b>	2008	<b>2009</b>	2008
Net (loss) earnings	\$ (1,120)	\$ (1,970)	\$ (1,481)	\$ 4,061
Current income taxes	(182)	(1,107)	423	2,186
Future income taxes	107	(58)	(197)	56
Amortization	326	303	956	672
Interest and bank charges	94	233	321	476
Interest revenue	(43)	(130)	(181)	(256)
EBITDA	\$ (818)	\$ (2,729)	\$ (159)	\$ 7,195

**Cash flow prior to working capital changes**

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

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

**Cash flow prior to working capital changes**

(in thousands)

	Three months ended June 30		Nine months ended June 30	
	<b>2009</b>	2008	<b>2009</b>	2008
Cash (used in) provided by operating activities	\$ (2,925)	\$ (1,054)	\$ (1,374)	\$ 12,791
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 flow prior to working capital changes	\$ (293)	\$ (1,422)	\$ (129)	\$ 5,708

**MANAGEMENT'S DISCUSSION AND ANALYSIS** *(continued)***RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTH PERIODS ENDED JUNE 30, 2009****Revenue**

Revenue for the three and nine month periods ended June 30, 2009 was \$6.2 million and \$32.0 million respectively, an increase of \$2.8 million and a decrease of \$3.3 million for the corresponding periods in 2008. The increase in revenue in the third quarter is due to restocking by the Company's retail customers subsequent to lower purchases being made in the prior quarter. In the second quarter of 2009, retailers had reduced inventory positions across their stores, including the Company's products, with the goal of retaining cash in uncertain economic times. Coinciding with the recent announcements related to H1N1 reaching pandemic status, retailers began stocking COLD-FX®, potentially in anticipation of increased demand. Year to date revenue is lower than the prior year primarily due to a first quarter product sizing change negotiated with one of the Company's major accounts and second quarter reduced shipments as a result of retailers significantly reducing inventory positions across their stores. Increases in third quarter revenue were not significant enough to offset the shortfall in the first half of fiscal 2009.

Revenue from the Company's United States customers was \$0.1 million in the third quarter of fiscal 2009, which approximates the amount recorded as revenue in the same period in the prior year, while year to date United States revenue of \$1.0 million is \$0.1 million higher than the prior year. United States revenue in the period and year to date primarily relates to the recording of sell-through to end consumers for product that was shipped in prior periods. The Company continues to focus its marketing and sales activities in Canada and management continues to expect a reduction in revenue from the United States, however, an acceleration of revenue recognition will occur in the fourth quarter as the Company negotiated a no right of return agreement with a major United States customer.

**Cost of goods sold and gross margin**

Gross margin for the three and nine month periods ended June 30, 2009 was 86.0% and 70.4%, respectively, as compared to 56.6% and 71.4% in the prior fiscal year's corresponding periods. The increase in gross margins realized in the quarter is due to the allocation of inventory overheads in a period where the Company was building inventory levels and due to higher revenue which averages down fixed logistics overheads which are recorded to cost of goods sold. The required adoption of the Canadian Institute of Chartered Accountants Handbook Section 3031 may result in the continued volatility of margin percentages in future quarters due to inventory overhead allocations. As a result, significant positive and negative manufacturing overhead variances may occur from the manufacturing of inventory in any given quarter as the sale of the product may not correlate to the period in which it is produced. Impacting both the current fiscal year's third quarter and year to date margins are the write-downs of inventory totaling \$0.1 million and \$1.0 million, respectively. The write-downs relate primarily to changes in packaging.

**Selling, general and administration**

Selling, general and administration costs of \$5.0 million in the third quarter of fiscal 2009 are \$1.4 million higher than in the same period in fiscal 2008. The increase in the quarter's costs relate to higher levels of Olympic related activities and Canadian athlete sponsorships associated with the Company's January 20, 2009 announced agreement with VANOC to become the exclusive sponsor in the cold and flu remedy product category for the Vancouver 2010 Olympic and Paralympic Winter Games. Contributing to the increase in expenditures in the quarter were costs totaling \$1.1 million related to legal, professional and settlement costs associated with an agreement reached with the Alberta Securities Commission. Severance costs of \$0.4 million were also incurred in the quarter as the Company continues to structure for the future.

Selling, general and administration costs of \$19.2 million in the nine month period ended June 30, 2009 are \$4.3 million higher than in the same period in fiscal 2008 as the Company increased marketing spending in the first quarter of fiscal 2009 for its lead product, COLD-FX®. The Company initiated a number of television and print ads in the first quarter of fiscal 2009 in areas of Canada where the incidence of cold and flu were increasing. In addition to

**MANAGEMENT'S DISCUSSION AND ANALYSIS** *(continued)*

increased media activity in the first quarter, additional sponsorship costs have been incurred by the Company for the nine months ended June 30, 2009 related to the Vancouver 2010 Olympic and Paralympic Winter Games initiative. Year to date Olympic related program spending totals \$1.6 million. Advertising expenses in the United States in the first quarter of 2009 were limited to \$0.2 million and no advertising expenditures were incurred in the United States in the second or third quarters of fiscal 2009. Also contributing to the increase in expenditures was an increase in legal and professional fees related to various activities including a settlement agreement with the Alberta Securities Commission. Severance and recruiting costs were also increased as the Company continues to structure for the future.

**Research and development**

Research and development costs of \$0.9 million and \$2.5 million in the three and nine month periods ended June 30, 2009 are \$0.2 million and \$0.6 million higher, respectively, than the amounts incurred in the corresponding periods in fiscal 2008. The Company continues to focus more resources towards research and development activities in order to further develop new products. The increase in expenditures in the third quarter of fiscal 2009 is due to an increase in staff and an increase in clinical trial activity. The Company continues to focus on reducing the time required to complete research on new product development and to commence additional research on new compounds that may potentially become commercial products. Partially offsetting the increase in expenditures is the recording of \$0.1 million of scientific research and experimental development tax credits ("SR&ED") in the third quarter of fiscal 2009 for a total of \$0.4 million of SR&ED for the nine months ended June 30, 2009 as compared to \$nil in the same periods of 2008.

**EBITDA**

The fiscal year to date EBITDA decreased by \$7.4 million to an EBITDA loss of \$0.2 million as compared to the first nine months of fiscal 2008, due to a decrease in revenue and margins, and an increase in selling, general and administration costs as described earlier in this report.

**Amortization**

In the second quarter of fiscal 2008, the Company completed and moved into a new Corporate Headquarters and Research Centre in Edmonton, Alberta. Year to date amortization is \$0.3 million higher than the corresponding period in fiscal 2008, primarily due to the new facility. Amortization in the third quarter of fiscal 2009 approximates the amount expensed in the third quarter of fiscal 2008, with a moderate increase due to lab and office equipment added over the past twelve months.

**Interest expense, bank charges, and interest revenue**

The majority of the Company's utilized bank financing is for a mortgage collateralized by the Company's facilities in Edmonton, Alberta. In the third quarter of 2009, the Company renegotiated its credit agreement which resulted in an increase in the interest rate from the bank's prime lending rate plus 1.0% to prime plus 1.25%. Bank prime lending rates have fallen and therefore the interest on the mortgage has reduced correspondingly over the comparable three and nine month periods in 2008. Also, a reduction in fees has been experienced due to the elimination of a 0.5% per month fee paid to a shareholder and former director of the Company. As part of the Company's former credit agreement negotiated in 2007 with its lenders, this shareholder provided the Company with a guarantee of \$5.0 million, at a fee of 0.5% per month. This fee was expensed as interest, bank charges and fees. The Company negotiated with its lender the removal of this guarantee in July 2008 and at that time, the fee to the shareholder ceased. Interest revenue is lower in the third quarter of 2009 as compared to the corresponding period in fiscal 2008 due to lower interest rates and lower surplus cash balance being carried throughout the third quarter.

**MANAGEMENT'S DISCUSSION AND ANALYSIS** *(continued)***Stock-based compensation**

Stock-based compensation increased by \$0.1 million and decreased by \$0.3 million, respectively, for the three and nine month periods ended June 30, 2009, as compared to the same periods in 2008. The increase in the third quarter of 2009 is largely due to the adoption of a deferred share unit ("DSU") plan for non-employee directors, a restricted share unit ("RSU") plan for eligible employees and an acceleration of expensing of certain options related to severance. During the three month period ended June 30, 2009, 188,420 DSU's were issued resulting in an expense of \$0.1 million and 175,000 RSU's were issued resulting in an expense of \$0.1 million. For the nine months ended June 30, 2009, the expenses realized with the adoption of the DSU and RSU plans were offset by the forfeiture of stock options by people who have left the Company. On January 21, 2009, the Company's Board of Directors approved amendments to 2,050,000 options 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. Such performance-based vesting provisions had not been consistently applied to all grants of options by the Company, and a decision was made by the Company's Board of Directors to standardize and simplify the vesting of options through the removal of performance-based vesting provisions from all options. The relevant options will remain subject to time-based vesting provisions set in accordance with the relevant provisions of the stock option plan.

**Foreign currency gains and losses**

The Company is invoiced for certain services and materials in foreign currencies (primarily United States dollars) and has foreign operations whose statutory accounts are denominated in United States dollars. These foreign operations are integrated with the Company's consolidated operations. Under GAAP, monetary items are translated at the exchange rate in effect at the balance sheet date; non-monetary items are translated at historical exchange rates; revenue and expense items are translated at the exchange rate in effect on the dates they occur; depreciation or amortization of assets are translated at historical exchange rates using the same historical exchange rate as the assets to which they relate. The Company did not enter into any foreign currency hedge instruments in fiscal 2008 or during the first three quarters of fiscal 2009. Canadian/United States exchange rates have fluctuated from \$Cdn1.00:\$U.S.0.94 at the beginning of the current fiscal year to \$Cdn1.00:\$U.S.0.86 at the end of the third quarter of fiscal 2009. A foreign exchange loss of \$0.4 million has resulted for the nine month period ended June 30, 2009.

**Income taxes**

Due to a pre-tax loss of \$1.2 million in the third quarter of 2009, an income tax recovery of \$0.1 million was recorded, reducing the fiscal year to date income tax expense to \$0.2 million. The fiscal year to date income tax expense is \$2.0 million lower than the same period in fiscal 2008 due to earnings before income taxes being \$7.6 million lower than the \$6.3 million pre-tax earnings experienced in the first nine months of fiscal 2008.

**Quarterly information**

*(in thousands except for per share amounts)*

	Q3	For the year ended September 30						
		2009	2008				2007	
		Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues	<b>\$6,195</b>	\$6,119	\$19,721	\$14,044	\$3,355	\$10,715	\$21,275	\$8,355
Net (loss) earnings	<b>(1,120)</b>	(3,168)	2,807	531	(1,970)	(768)	6,799	(1,080)
(Loss) earnings per common share - basic	<b>(0.01)</b>	(0.03)	0.03	0.00	(0.02)	(0.01)	0.07	(0.01)
(Loss) earnings per common share - diluted	<b>(0.01)</b>	(0.03)	0.03	0.00	(0.02)	(0.01)	0.06	(0.01)

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

The most significant portion of the Company's revenue is from the sale of COLD-FX®. The sales of this product exhibit a seasonal pattern tied to the frequency and severity of colds and flu. Consumer purchases are affected by

**MANAGEMENT'S DISCUSSION AND ANALYSIS** *(continued)*

factors that also include the weather. This affects the volume and timing of sales. The fourth quarter of the Company's fiscal year corresponds to the time that most of the Company's major customers commence stocking up on cold and flu products in anticipation of demand in the late fall and winter months when, historically, cold and flu incidence rises. Further orders are made for restocking of product once the cold and flu season commences, which typically corresponds to the Company's first quarter. The Company's second quarter corresponds to the time that cold and flu incidence is on the decline and the third quarter is historically the lowest revenue quarter as cold and flu incidence is typically at its lowest. The Company aims to time marketing expenditures with anticipated increases in cold and flu activity; however, depending on specific marketing programs, these expenditures may not fall within the quarters for which revenue is derived. Revenue in the third quarter of 2009 increased significantly compared to the same period in 2008. Management believes that many of the Company's retail customers were holding reduced levels of store inventories at the end of the second quarter of 2009 compared to the same period the prior year due to the current uncertain economic times. As a result of the reduced inventory levels, additional orders were required to be placed in the third quarter of 2009 by the Company's customers to meet the end consumers' anticipated demand.

**LIQUIDITY AND CAPITAL RESOURCES**

The Company's main source of capital in the most recently completed quarter was the use of the Company's cash on hand built up through operating activities in prior periods. The Company's operating line of credit was not utilized in the period. The Company's primary use of cash was the funding of operating activities as a loss was incurred in the period. In addition to supporting operating activities, capital was used in the quarter to finance capital expenditures and make principal payments on long term debt. On an annual basis, the Company's main source of capital was also from the use of the Company's cash on hand built up through operating activities in prior periods. The primary uses of cash are the financing of working capital, capital expenditures and the repurchase of shares under a normal course issuer bid.

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

The Company's working capital and capital expenditure requirements depend upon numerous other factors including, but not limited to, the success and timing of the introduction of new products or entry into new markets, consumer demand, rights of return held by customers, timing of market development programs, construction costs, and long-term focus on product research and development activities. The Company anticipates that cash generated from operations and availability of its bank operating line will be sufficient to meet its cash requirements beyond the next twelve months.

**MANAGEMENT'S DISCUSSION AND ANALYSIS** (continued)

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**Selected cash flow and capitalization data**

(in thousands)	Three months ended June 30		Nine months ended June 30	
	2009	2008	2009	2008
Cash flow prior to working capital changes <sup>1</sup>	\$ (293)	\$ (1,422)	\$ (129)	\$ 5,708
Cash (used in) provided by operating activities	(2,925)	(1,054)	(1,374)	12,791
			<b>As at</b>	<b>As at</b>
			<b>June 30, 2009</b>	September 30, 2008
Cash and cash equivalents and short term investments combined		\$	<b>5,976</b>	\$ 9,396
Working capital <sup>1</sup>			<b>12,685</b>	13,742
Long term debt and obligations under capital lease (including current portion)			<b>6,532</b>	7,021

<sup>1</sup> Cash flow prior to working capital changes and working capital are non-GAAP measures and may not be comparable to similar measures presented by other issuers. Reconciliations of these measures to the most directly comparable financial measure calculated and presented in accordance with Canadian GAAP along with explanations as to why they are used is provided earlier in the "Non-GAAP Financial Measures and Reconciliations" section.

**Cash and working capital**

At June 30, 2009, the Company had \$6.0 million (September 30, 2008 – \$4.3 million) of cash and cash equivalents on hand and a short-term investment of \$nil (September 30, 2008 – \$5.1 million) which consisted of a cashable guaranteed investment certificate and carried an interest rate of 3.25%. The guaranteed investment certificate matured on June 30, 2009 and was not re-invested. The Company's working capital at June 30, 2009 was \$12.7 million (September 30, 2008 – \$13.7 million).

**Cash provided by operating activities**

Cash flow prior to working capital changes increased by \$1.1 million in the three months ended June 30, 2009 due to strong third quarter revenue and margins, which was partially offset by increased selling, general and administration costs. For the nine month period ended June 30, 2009, cash flow prior to working capital changes decreased by \$5.8 million as compared to the same period in fiscal 2008. This variance is primarily due to increased selling, general and administration costs in addition to softer revenue and margins realized year to date in fiscal 2009 compared to the same period in the prior year.

**Cash flow used in investing activities**

Capital expenditures for the three month period ended June 30, 2009 of \$0.2 million bring the fiscal year to date expenditures to \$0.5 million. These expenditures in the first three quarters of 2009 are primarily for lab equipment for the Company's Corporate Office and Research Facility. Construction of this facility was completed in the second quarter of fiscal 2008. Capital expenditures in the first three quarters of 2008 of \$3.6 million are primarily related to the construction cost of the facility. On June 30, 2009, the guaranteed investment certificate purchased in the third quarter of 2008 matured resulting in an increase in cash and cash equivalents of \$5.0 million.

**Cash flow from financing activities**

In 2008, the Company completed the construction of a new facility in Edmonton, Alberta. The construction of the facility was partially financed by a term facility provided under the Company's credit agreement with \$2.3 million of the facility drawn in the first quarter of fiscal 2008, with the proceeds used primarily to repay short-term borrowings drawn to fund payables associated with the construction. During the first nine months of fiscal 2009, financing activities are primarily limited to repayment of long-term debt and the purchase of Company shares through a normal course issuer bid.

**MANAGEMENT'S DISCUSSION AND ANALYSIS** *(continued)***Capital requirements and capitalization**

At June 30, 2009, the Company had obligations to repay within one year \$0.7 million of long-term debt and obligations under capital leases and make payments of less than \$0.2 million under operating lease agreements for premises and miscellaneous equipment. In the normal course of business, the Company has entered into a commitment to purchase raw materials for the production of its lead product COLD-FX® for \$0.6 million. Advertising and sponsorship commitments total \$2.3 million for the next twelve months with a total of \$3.5 million over the next five years. The Company's capital expenditures for the first nine months of fiscal 2009 were \$0.8 million with projected capital expenditures for the rest of fiscal 2009 to be approximately \$0.3 million, primarily consisting of lab and office equipment. Some of the capital expenditures forecasted to the end of fiscal 2009 may be delayed depending on the ability of the Company to hire needed personnel in its Research and Development department.

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% from bank prime lending rate plus 1.0% repayable in monthly amounts of \$51 thousand 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 had available a \$5.0 million (2008 – \$5.0 million) 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 \$2.5 million. 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 \$1.0 million of letters of guarantee. At June 30, 2009, the Company had one (2008 – two) standby letter of credit in the amount of \$0.1 million (2008 – \$0.5 million and \$0.1 million) 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% per annum (2008 – 1.5%).

**Aggregate contractual obligations and off-balance sheet financing**

The Company has entered into operating and capital lease and purchasing agreements in the normal course of business. In addition, the Company has entered into various agreements to provide financial assistance in research and development activities and clinical studies as well as for the purchase of raw material used in the manufacture of product for sale. On January 20, 2009, the Company entered into an agreement with the Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games. The agreement provides the Company exclusive sponsorship rights in Canada in the "Over the Counter Cold and Flu Remedy" product category. The Company will expense fees for these sponsorship rights as incurred.

**CLASS ACTION LAWSUIT**

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS** *(continued)*

The matters raised in the lawsuits are, at this stage, unproven allegations that will be vigorously defended. At present, the Ontario and Alberta Courts have not granted leave for the lawsuits to proceed as secondary market securities class actions and the lawsuits have not been certified as class actions. The Plaintiffs have served their certification/leave motion materials and motions are anticipated to be heard in the latter half of the 2009 calendar year. The Company has not recorded any liability related to the class action lawsuits.

**SECURITIES COMMISSION SETTLEMENT**

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 thousand, 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.

**RELATED PARTY TRANSACTIONS**

No related party transactions with new related parties have been entered into during the Company's first nine months of fiscal 2009. Further discussion regarding related party transactions can be found in the Company's September 30, 2008 Management's Discussion and Analysis.

**OUTSTANDING SHARES, STOCK OPTIONS, DSU AND RSU**

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. There were no preferred shares outstanding at August 12, 2009. As at August 12, 2009, 105,252,768 common shares and 4,663,000 share options were outstanding. The pool of options available for grants at August 12, 2009 was 8,425,450. As at August 12, 2009 the Company has outstanding 188,420 deferred share units and 175,000 restricted share units, all of which were granted in the third quarter of fiscal 2009.

**NORMAL COURSE ISSUER BID ("NCIB")**

On October 14, 2008, the Company announced the implementation of its NCIB to purchase up to 5,386,175 of the Company's common shares, representing 5% of its then issued and outstanding common shares. The NCIB commenced on October 16, 2008 and will terminate on October 15, 2009. During the three and nine month periods ended June 30, 2009, the Company has purchased 50,500 and 2,470,730 common shares, respectively, at an average cost of \$0.39 and \$0.39 per common share (inclusive of brokerage fees). The total expenditure for the three and nine month periods ended June 30, 2009 totals \$0.02 million and \$0.97 million, respectively. No additional purchases of common shares have occurred under the NCIB since June 30, 2009; however, additional purchases are expected to occur following the release of the Company's third quarter 2009 results.

**RISKS AND UNCERTAINTIES**

The Company's results are affected by: financial risks (including liquidity, interest rate, foreign exchange, credit and litigation risks); operational risks (market and product, seasonality of demand, product development, material supply and reliance on third party risks); and health and safety risks.

The Company takes a proactive approach in the identification and management of risks, including review of such risks through compliance reviews and oversight by the Company's Audit Committee. Mitigation of these risks include, but are not limited to, credit policies, operational policies, maintaining adequate insurance, as well as policies and enforcement procedures that can affect the Company's reputation.

**MANAGEMENT'S DISCUSSION AND ANALYSIS** *(continued)*

As discussed in the 2008 year-end Management's Discussion and Analysis, management continues to believe that the Company remains in its growth stage with its lead product COLD-FX®; however, given the current economic slowdown, customer demand is at risk. The Company is dependant on a few retail customers for the majority of its revenue. Declining demand from any one of these retail customers will have a negative impact on the Company's revenues and cash flows. To mitigate this risk, and to ensure the Company continues to increase its market share, the Company will pursue its marketing, advertising and public awareness programs to increase end-consumer demand.

With the current economic downturn, the Company is faced with the risks of declining consumer demand, increased counterparty risk, and tightening of credit availability. All of these risks impact the Company's liquidity. The demand for the Company's lead product remains strong and the Company plans are for ongoing marketing and advertising expenditures to mitigate the risk of declining demand. Counterparty risk is mitigated by the Company's customer mix, which is comprised of large retailers, and by the Company's credit risk management processes. Management believes that the Company's current cash position is adequate to mitigate potential tightening of credit terms, while meeting its near term obligations and also believes that its current credit line limits are sufficient to meet the cash flow requirements of its seasonal operations.

Further discussion regarding other risks and mitigation thereof can be found in the Company's September 30, 2008 Management's Discussion and Analysis.

**DISCLOSURE CONTROLS AND PROCEDURES ("DC&P") AND INTERNAL CONTROL OVER FINANCIAL REPORTING ("ICFR")**

Based on the Company's September 30, 2008 year-end evaluation, management has concluded that disclosure controls and procedures were effective subject to the weaknesses described in the Company's 2008 year-end Management's Discussion and Analysis. Management has evaluated whether there were changes in the Company's internal controls over disclosure and financial reporting during the most recent interim period ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect the Company's DC&P and ICFR. No material changes were identified.

Also, as disclosed in the Company's September 30, 2008 year-end Management's Discussion and Analysis, management has identified a number of ways in which its estimation processes and supporting tools can be improved and continue to work towards implementing such enhancements. Management has continued to implement manual review processes to mitigate risk of error in its estimation process. During the period, management has developed and is testing an automated process to consolidate its financial results. In addition, a software application has been licensed to complement the Company's existing Enterprise Resource Planning system, which can enhance the Company's ability to compute and review certain management estimates related to revenue. This new software application is in the early stages of implementation which is scheduled to be completed in early fiscal 2010.

Material misstatements due to error or fraud may not always be prevented or detected on a timely basis because of the inherent limitation of DC&P and ICFR, including the possibility of collusion or improper management override of controls. Inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. In addition, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Management will continue to monitor and improve internal controls as necessary and appropriate for the business. Further discussion regarding DC&P and ICFR can be found in the Company's September 30, 2008 year-end Management's Discussion and Analysis.

**MANAGEMENT'S DISCUSSION AND ANALYSIS** *(continued)***ACCOUNTING POLICIES AND ESTIMATES****New accounting standards adopted**

The Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3031, Inventories, for valuation, presentation and disclosure of inventory and Section 3064, Goodwill and Intangible Assets, effective October 1, 2008. The adoption of Section 3031 resulted in an increase to opening inventory of \$1.5 million, an increase in future income tax liabilities of \$0.5 million and a decrease in the deficit of \$1.0 million at the date of adoption. The adoption of Section 3064 did not have a material impact on the Company's financial position or results of operations. Additional information on the effects of the implementation of the new standards can be found in Note 2 to the 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. The Company will be required to report its results in accordance with IFRS starting in its fiscal year ended September 30, 2012. As a result, the Company is assessing the potential impacts of this changeover and is 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 quarter, the Company also conducted initial IFRS awareness training for staff.

**Critical accounting policies and estimates**

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

Significant estimates made by management include provisions for customer discounts and incentives, allowances for uncollectible accounts, rights of return, the realizable portion of inventory during the Company's normal business cycle, inventory provisions, the realizing of future income taxes, useful lives of long-lived assets, future expected cash flows used in evaluating long-lived assets for impairment, percentage completion of contracted service expenditures and stock-based compensation fair values. Further discussion regarding critical accounting policies and estimates can be found in the Company's September 30, 2008 Management's Discussion and Analysis.

**OUTLOOK**

The Company continues to focus on the development and launching of new products in the Canadian marketplace, as well as further growing its existing business by broadening its consumer base. It continues to be committed to its scientific efforts and investment, and developing products that have clinical studies with successful results behind them.

Rapid revenue growth for the Company in the past has brought logistical challenges resulting in inventory shortages and delays in delivery. For the upcoming cold and flu season, the Company has built significant inventory levels and no significant logistical issues are anticipated. The expectation is to see continued growth of shipments in the fourth quarter in preparation for the upcoming cold and flu season. The logistical improvement in the manufacturing end of

**MANAGEMENT'S DISCUSSION AND ANALYSIS** *(continued)*

the business will also be beneficial as the Company introduces new products currently under development.

Management continues to expect a reduction in revenue from the United States, however, an acceleration of revenue recognition will occur in the fourth quarter as the Company has negotiated a no right of return agreement with one major United States customer.

Although COLD-FX® has not been specifically tested on strains of the H1N1 virus, the Company has numerous clinical trials showing effectiveness of COLD-FX® on reducing the incidence and severity of flu, in addition to colds. The Company is analyzing how best to position its products, given the recent pandemic status of H1N1, without contravening any Health Canada or advertising regulations.

In the fourth quarter of 2009, the Company is launching a new product, IMMUNITY-FX®. Initial discussions with retail customers have been positive with most existing customers already committed to listing the product. As per the Company's revenue recognition policy, for certain new product launches, revenue will only be recorded on a sell-through basis until such time as a reasonable history is developed to estimate return allowances. The initial shipments in the fourth quarter of 2009 of IMMUNITY-FX® are not anticipated to result in significant revenue in the quarter. Consumer awareness and purchases are anticipated to occur in later quarters once advertising and other promotional initiatives planned by the Company commence this fall and winter.

The previously announced United States National Cancer Institute approved multi-centre clinical trial on the safety and efficacy of COLD-FX® for preventing colds and flu and strengthening immune systems in patients with chronic lymphocytic leukemia is on schedule; the treatment phase has been completed and the analysis phase has begun. Various clinical trials are ongoing or being planned for launch in the immune health, neurological or metabolic syndrome core areas to support the Company's five year product pipeline. Pre-clinical studies are underway in collaboration with McGill University, McMaster University, and the University of Alberta, demonstrating the potential application of CVT-E002 in allergies, asthma, and cancer. The Company continues to actively collaborate with experts in the metabolic syndrome area to conduct pre-clinical and clinical studies on new product candidates.

On January 20, 2009, the Company announced jointly with the Vancouver 2010 Olympic and Paralympic Winter Games that it has been chosen as the official cold and flu remedy of the 2010 Olympic and Paralympic winter games. The official supplier designation will become the focus of much of the Company's marketing efforts for the next few years as the four year Official Supplier partnership with VANOC also provides sponsorship rights for COLD-FX® to serve as the Official Supplier for the Canadian Olympic Teams competing at both the 2010 Winter Games and the London 2012 Olympic Games. Olympic specific packaged product is substantially completed with shipments commencing in the Company's fourth quarter of fiscal 2009 and the majority of Olympic sponsored events and promotional campaigns have been planned for execution in the ensuing months.

Although the selection committee of independent Directors, established by the Board of Directors, has met with a number of impressive candidates for the position of Chief Executive Officer, no consensus has been reached on any one individual and the recruitment process continues. In the interim, Mr. Jack Moffatt, Executive Chair will continue to lead the Company's day-to-day operations.

Several alternatives for growth outside the Company's Canadian core business area could be pursued, including the potential for strategic partnerships or an international license agreement of the Company's products. On June 22, 2009, the Company announced one such agreement with a Hong Kong based health care company to market and distribute its COLD-FX® product exclusively in the Hong Kong and Macau markets. The Company expects shipments to the Hong Kong marketplace to start in the current fiscal year, in time for that region's upcoming cold and flu season. Other international arrangements will be sought where the regulatory environments are conducive and an appropriate partner can be identified.