

**CV Technologies Inc.**  
**Consolidated**  
**Financial Statements**  
September 30, 2004

## Contents

	<u>Page</u>
Auditors' Report	1
Consolidated Statements of Earnings (Loss)	2
Consolidated Statements of Deficit	3
Consolidated Balance Sheets	4
Consolidated Statements of Cash Flows	5
Notes to the Consolidated Financial Statements	6 - 23

## Auditors' Report

To the Shareholders of  
CV Technologies Inc.

We have audited the consolidated balance sheets of CV Technologies Inc. as at September 30, 2004 and 2003 and the consolidated statements of earnings (loss), deficit and cash flows for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2004 and 2003 and the results of its operations and cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Canada  
November 26, 2004

[SIGNED] Grant Thornton LLP  
Chartered Accountants

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**CV Technologies Inc.****Consolidated Statements of Earnings (Loss)**

Years Ended September 30

**2004****2003**

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Product sales	<b><u>\$ 6,416,732</u></b>	<b><u>\$ 1,543,326</u></b>
Direct costs		
Product costs	<b>1,635,141</b>	585,564
Freight	<b>235,086</b>	11,562
Commission and brokerage	<b><u>319,323</u></b>	<u>35,596</u>
	<b><u>2,189,550</u></b>	<u>632,722</u>
Gross margin (65.9%, 2003 - 59.0%)	<b><u>4,227,182</u></b>	<u>910,604</u>
Other revenue		
Rental	-	148,523
Sub-contract	<b><u>40,000</u></b>	<u>-</u>
	<b><u>40,000</u></b>	<u>148,523</u>
Operating expenses		
Advertising and marketing	<b>1,283,089</b>	389,807
Salaries and employee benefits	<b>1,022,798</b>	825,379
Quality control, clinical research and development	<b>640,726</b>	188,419
Office and occupancy	<b>351,967</b>	237,745
Travel	<b>181,933</b>	77,547
Public and investor relations	<b>169,329</b>	96,670
Professional fees	<b>112,935</b>	100,252
Amortization	<b>100,446</b>	193,385
Consulting fees	<b>85,161</b>	186,717
Insurance and licenses	<b>71,835</b>	60,115
Business promotions and donations	<b>63,286</b>	13,001
Interest on long term debt	<b>24,470</b>	30,143
Interest and bank charges	<b>21,121</b>	9,160
Bad debts (recovery)	<b><u>(1,342)</u></b>	<u>-</u>
	<b><u>4,127,754</u></b>	<u>2,408,340</u>
Other operating expenses		
Loss on settlement of lease (Note 21)	-	363,942
Write down of expired inventory	<u>-</u>	<u>125,134</u>
	<u>-</u>	<u>489,076</u>
Earnings (loss) before non-controlling interest share of subsidiary's loss	<b>139,428</b>	(1,838,289)
Non-controlling interest share of subsidiary's loss	<b><u>11,490</u></b>	<u>42,361</u>
Net earnings (loss)	<b><u>\$ 150,918</u></b>	<b><u>\$ (1,795,928)</u></b>

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See accompanying notes to the consolidated financial statements.

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**CV Technologies Inc.**  
**Consolidated Statements of Deficit**

Years Ended September 30	2004	2003 (Restated) (Note 9)
Deficit, beginning of year, as previously reported	\$ (14,401,835)	\$ (12,975,056)
Prior period restatement (Note 9)	<u>-</u>	<u>369,149</u>
As restated	(14,401,835)	(12,605,907)
Net earnings (loss)	<u>150,918</u>	<u>(1,795,928)</u>
Deficit, end of year	<u>\$ (14,250,917)</u>	<u>\$ (14,401,835)</u>
<hr/>		
Earnings (loss) per share - basic and diluted (Note 12)	<u>\$ 0.00</u>	<u>\$ (0.03)</u>

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See accompanying notes to the consolidated financial statements.

# CV Technologies Inc.

## Consolidated Balance Sheets

September 30	2004	2003 (Restated) (Note 9)
<b>Assets</b>		
Current		
Receivables	\$ 1,949,061	\$ 247,040
Inventory	2,398,666	426,002
Prepaid expenses	<u>289,768</u>	<u>68,377</u>
	<b>4,637,495</b>	<b>741,419</b>
Patents and registered trademarks (Note 3)	853,872	838,008
Capital assets (Note 4)	200,560	64,224
Deferred development costs	<u>1,808,006</u>	<u>1,808,006</u>
	<b>\$ 7,499,933</b>	<b>\$ 3,451,657</b>
<b>Liabilities</b>		
Current		
Bank indebtedness (Note 5)	\$ 180,970	\$ 17,172
Demand loan (Note 6)	1,275,000	-
Payables and accruals	1,228,983	229,070
Debenture payable (Note 7)	-	283,140
Current portion of obligations under capital leases (Note 8)	17,144	-
Current portion of lease inducement	<u>11,016</u>	<u>-</u>
	<b>2,713,113</b>	<b>529,382</b>
Deferred license revenue	30,000	30,000
Obligations under capital leases (Note 8)	38,790	-
Lease inducement	<u>39,008</u>	<u>-</u>
	<b>2,820,911</b>	<b>559,382</b>
Non-controlling interest (Note 9)	<u>24,714</u>	<u>36,205</u>
<b>Shareholders' Equity</b>		
Capital stock (Note 10)	18,833,667	17,257,905
Contributed surplus (Note 11)	71,558	-
Deficit	<u>(14,250,917)</u>	<u>(14,401,835)</u>
	<b>4,654,308</b>	<b>2,856,070</b>
	<b>\$ 7,499,933</b>	<b>\$ 3,451,657</b>

Commitments and contingencies (Note 19)

On behalf of the Board

“Gordon Tallman” \_\_\_\_\_ Director

“Jackie Shan” \_\_\_\_\_ Director

See accompanying notes to the consolidated financial statements.

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# CV Technologies Inc.

## Consolidated Statements of Cash Flows

Years Ended September 30

2004

2003

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Increase (decrease) in cash and cash equivalents

### Operating

Net earnings (loss)	\$ 150,918	\$ (1,795,928)
Amortization	100,446	193,385
Loss on settlement of lease	-	363,942
Non-controlling interest share of subsidiary's loss	(11,490)	(42,361)
Accrued interest on debenture payable	21,956	26,839
Stock based compensation expense	<u>71,558</u>	<u>-</u>
	<b>333,388</b>	<b>(1,254,123)</b>
Change in non-cash operating balances		
Receivables	(1,702,021)	(93,258)
Inventory	(1,972,664)	292,697
Prepaid expenses	(221,391)	(60,264)
Payables and accruals	999,913	(129,283)
Lease inducements	50,024	-
Deferred license revenue	<u>-</u>	<u>30,000</u>
	<b>(2,512,751)</b>	<b>(1,214,231)</b>

### Financing

Issuance of demand loan	1,275,000	-
Repayment of obligations under capital leases	(6,298)	-
Issuance of capital stock	<u>1,270,664</u>	<u>1,391,392</u>
	<b>2,539,366</b>	<b>1,391,392</b>

### Investing

Purchase of capital assets	(107,891)	(132,261)
Purchase of patents and registered trademarks	<u>(82,522)</u>	<u>(72,529)</u>
	<b>(190,413)</b>	<b>(204,790)</b>

Decrease in cash and cash equivalents (163,798) (27,629)

Cash and cash equivalents (bank indebtedness)

Beginning of year	<u>(17,172)</u>	<u>10,457</u>
End of year	<b>\$ (180,970)</b>	<b>\$ (17,172)</b>

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Supplemental cash flow information (Note 14)

See accompanying notes to the consolidated financial statements.

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# **CV Technologies Inc.**

## **Notes to the Consolidated Financial Statements**

September 30, 2004 and 2003

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### **1. Nature of operations**

CV Technologies Inc. is a publicly owned company that develops and sells biopharmaceutical and health supplement products. It is incorporated under the Business Corporations Act (Alberta), and trades on the TSX Venture Exchange under the symbol "CVQ".

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### **2. Summary of significant accounting policies**

The Company's accounting policies and its standards of financial disclosure are in accordance with the recommendations of the Canadian Institute of Chartered Accountants.

#### **Principles of consolidation**

The consolidated financial statements include the assets, liabilities, and results of operations, after the elimination of intercompany transactions and balances of the Company, its 57.4% interest in ChemBioPrint Asia Limited, and its 60% joint venture interest in Vet Ex Inc.

#### **Translation of foreign currencies**

Monetary assets and liabilities of the Company's foreign subsidiary are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities are translated at the rates in effect when the transactions giving rise to the asset or liability take place. The income and expenses of the subsidiary are translated using the average exchange rate for the year. Realized and unrealized losses of \$938 (2003 - \$23,875) arising from these translations are included in the consolidated statements of earnings (loss).

#### **Use of estimates**

In preparing financial statements in conformity with Canadian generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Revenue recognition**

Revenue from the sale of goods is recognized when title passes to the customers, which is generally at the time the goods are shipped and when reasonable assurance exists regarding the measurement and collection of the consideration given.

License revenue and other revenue from third party contracts are recognized and earned on an accrual basis in accordance with the terms of the contractual agreements.

Research and development assistance for clinical trials and technology development expenses is recognized as a reduction of expenses at the time that the related expenditure is incurred under the terms of the funding agreement. Certain of the assistance may be repayable dependent upon the ultimate success of the related products and will be charged to earnings at that time (Note 19a and b).

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# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

September 30, 2004 and 2003

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### 2. Summary of significant accounting policies (cont'd)

#### Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks, net of bank overdrafts and short term investments with original maturities of three months or less. Borrowings on the demand loan are classified as financing activities.

#### Inventory

Inventory is recorded at the lower of cost and net realizable value. Cost is determined on an average cost basis.

#### Patents and registered trademarks

Patents and registered trademarks are recorded at cost and are amortized on a straight line basis over the estimated useful life of 20 and 10 years respectively.

#### Capital assets

Capital assets are recorded at cost and amortization is provided for using the following methods and rates:

Furniture and equipment	20 - 30%, declining balance
Computer hardware	20 - 50%, declining balance
Computer software	20%, declining balance
Lab equipment	20%, declining balance
Equipment under capital leases	20%, declining balance

#### Deferred development costs

Development costs are capitalized for the technologies that are at a stage where potentially profitable markets have been identified and evaluated. The costs deferred are for clinical studies related to the development of Parathyroid Hypertensive Factor technology related to cardiovascular therapies. Amortization of the development costs will commence with commercial production or use of the product or process being developed. As this stage has not been reached, no amortization has been provided in the present period.

The recoverability of unamortized deferred development costs are evaluated, at least on an annual basis, based on projected future revenues net of associated costs, on a product-by-product basis. When such review indicates that estimated future cash flows or benefits associated with these deferred costs would not be sufficient to recover their carrying value, the excess of the carrying value over fair value will be recognized as an impairment loss and charged to expense in the period that impairment has been determined.

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# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

September 30, 2004 and 2003

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### 2. Summary of significant accounting policies (cont'd)

#### Research and development

Research and development expenditures (except for capital assets) are charged to expenses as incurred unless a development project meets the Canadian generally accepted accounting criteria for deferral and amortization.

#### Investment tax credits

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

#### Lease inducement

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

#### Financial instruments

##### a) Fair value

The Company's financial instruments include receivables, bank indebtedness, demand loan, payables and accruals, obligations under capital leases and debentures payable. The fair values of all financial instruments approximate their carrying values.

##### b) Interest rate risk

The Company's exposure to interest rate risk relates to the floating interest rate on bank indebtedness and the demand loan.

##### c) Credit risk

Credit risk arises from the possibility that the entities to which the Company sells products may experience financial difficulty and be unable to fulfill their contractual obligations. This risk is mitigated by proactive credit management policies that include regular monitoring of the debtor's payment history and performance.

##### d) Foreign currency risk

The Company has cash, receivables, and payables and accruals that are denominated in foreign currencies, and thus is exposed to the financial risk of earnings fluctuations arising from changes in foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. It is management's opinion that foreign currency risk is not significant.

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# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

September 30, 2004 and 2003

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### 2. Summary of significant accounting policies (cont'd)

#### Earnings (loss) per share

The computation of basic earnings (loss) per share has been calculated using the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share reflects the potential dilution that would occur if stock options and warrants were exercised and debentures converted. The Company applies the "if converted" method for convertible debentures which assumes conversion into common shares outstanding since the beginning of the year. The Company uses the "treasury method" for outstanding options and warrants which assumes that all outstanding stock options and warrants with an exercise price below the average market price are exercised and assumed proceeds are used to purchase the Company's common shares at the average market price during the year.

#### Income taxes

Income taxes have been provided using the liability method of tax allocation. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

#### Stock-based compensation plans

Effective October 1, 2002, the Company adopted the new CICA standard for stock-based compensation and other stock-based payments. Direct awards of shares to employees and non-employees and stock option awards granted to non-employees, are accounted for using the fair value method of accounting for stock-based compensation. The Company has chosen not to recognize compensation expense when stock options are granted to employees, officers and directors issued at the prevailing market price and where there are no cash settlement features. As permitted by this standard, the Company has applied this change prospectively for new awards granted on or after October 1, 2002. In the periods prior to October 1, 2002, the Company recognized no compensation expense when stock options were issued to employees.

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## CV Technologies Inc.

### Notes to the Consolidated Financial Statements

September 30, 2004 and 2003

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#### 3. Patents and registered trademarks

September 30, 2004

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Patents	\$ 1,176,818	\$ 392,870	\$ 783,948
Registered trademarks	<u>114,037</u>	<u>44,113</u>	<u>69,924</u>
	<u>\$ 1,290,855</u>	<u>\$ 436,983</u>	<u>\$ 853,872</u>

September 30, 2003

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Patents	\$ 1,129,103	\$ 335,699	\$ 793,404
Registered trademarks	<u>79,230</u>	<u>34,626</u>	<u>44,604</u>
	<u>\$ 1,208,333</u>	<u>\$ 370,325</u>	<u>\$ 838,008</u>

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#### 4. Capital assets

September 30, 2004

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Furniture and equipment	\$ 131,317	\$ 67,931	\$ 63,386
Computer hardware	59,844	15,610	44,234
Computer software	56,122	28,777	27,345
Lab equipment	8,566	650	7,916
Equipment under capital leases	<u>62,232</u>	<u>4,553</u>	<u>57,679</u>
	<u>\$ 318,081</u>	<u>\$ 117,521</u>	<u>\$ 200,560</u>

September 30, 2003

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Furniture and equipment	\$ 74,875	\$ 56,343	\$ 18,532
Computer hardware	19,255	4,560	14,695
Computer software	<u>53,828</u>	<u>22,831</u>	<u>30,997</u>
	<u>\$ 147,958</u>	<u>\$ 83,734</u>	<u>\$ 64,224</u>

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# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

September 30, 2004 and 2003

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### 5. Bank indebtedness

The Company's bank indebtedness consists of bank overdrafts and cheques issued in excess of funds on deposit. Bank overdraft amounts, if any, are subject to the same terms and conditions as discussed in Note 6 below.

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### 6. Demand loan

The Company has a demand operating line of credit up to a maximum of \$2,500,000 based on receivables, inventory and tax credits. As of the year-end, the Company had drawn \$1,275,000 on the line of credit (2003 - \$Nil). The operating line bears interest at Royal Bank of Canada prime rate plus 1.25% per annum. The collateral security lodged by the Company to support the operating line of credit is a General Security Agreement constituting a first ranking security interest in all personal property of the Company.

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### 7. Debenture payable

During the year, the Company had a debenture outstanding to a director of the Company in the amount of \$250,000, bearing interest at a rate of 10% per annum compounded monthly. The principal amount of the debenture and accrued interest thereon was converted at the option of the holder for 3,050,977 common shares of the Company at a price of \$0.10 per share.

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### 8. Obligations under capital leases

The following is a schedule by year of future minimum lease payments together with the balance of the obligations under capital leases:

2005	\$	23,948
2006		23,948
2007		15,954
2008		1,893
2009 and thereafter		<u>2,108</u>
Total minimum lease payments		67,851
Less: amounts representing interest at a weighted average rate of 14.20%		<u>11,917</u>
Balance of obligations under capital leases		55,934
Less: current portion		<u>17,144</u>
Long term balance of obligations under capital leases	\$	<u>38,790</u>

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# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

September 30, 2004 and 2003

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### 9. Non-controlling interest

The non-controlling interest represents the 42.6% equity interest of the minority shareholders in the Company's subsidiary, ChemBioPrint Asia Limited.

#### Restatement of 2003 minority interest

The 2003 non-controlling interest has been restated to properly account for two minority shareholder investments in ChemBioPrint Asia Limited that occurred in 1999 and 2000. The adjustment was required to more appropriately reflect the non-controlling interest's share of the net assets of the subsidiary subsequent to these additional investments. The effect of the restatement on the 2003 balance sheet is as follows:

Decrease to opening deficit	\$	369,149
Decrease to minority interest		(369,149)

The above restatement had no effect on the 2003 statement of loss, statement of cash flows, or reported assets and liabilities of the Company.

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### 10. Capital stock

#### Authorized:

Unlimited number of Class A voting common shares  
Unlimited number of Class P preferred shares,  
voting rights to be determined prior to first issue

#### Issued and outstanding:

Class A common shares:	<u>Shares</u>	<u>Amount</u>
Balance September 30, 2002	62,788,160	\$ 15,866,513
Private placements issued for cash consideration	13,925,000	1,334,392
Exercise of options	270,000	27,000
Exercise of warrants	<u>300,000</u>	<u>30,000</u>
Balance September 30, 2003	77,283,160	\$ 17,257,905
Conversion of convertible debenture	3,050,977	305,098
Exercise of options	615,689	114,327
Exercise of warrants	<u>10,638,375</u>	<u>1,156,337</u>
Balance September 30, 2004	<u>91,588,201</u>	<u>\$ 18,833,667</u>

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

September 30, 2004 and 2003

### 10. Capital stock (cont'd)

#### Stock options

The Company has adopted a stock option plan that permits the Board of Directors to grant to employees, officers and directors options to purchase from Treasury up to 17,651,444 common shares. Options issued after the listing of the Company on the TSX Venture Exchange shall have an exercise price not less than the minimum price required by the TSX Venture Exchange.

As at September 30, 2004 there are 17,294,444 (2003 - 13,139,606) stock options outstanding, exercisable at prices ranging from \$0.10 to \$0.72 that expire between December 31, 2004 and July 31, 2009. A summary of the status of the Company's stock options for the years presented and changes during the years ended on those dates are as follows:

#### September 30, 2004

	<u>Stock Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of year	13,139,606	\$ 0.1743
Granted	8,760,527	0.6879
Reinstated	10,000	0.2500
Forfeited/cancelled	(375,000)	0.5900
Exercised	(615,689)	0.1813
Expired	<u>(3,625,000)</u>	<u>0.4514</u>
Outstanding, end of year	<u>17,294,444</u>	<u>\$ 0.3676</u>
Exercisable, end of year	<u>5,188,556</u>	<u>\$ 0.3658</u>

#### September 30, 2003

	<u>Stock Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of year	3,368,648	\$ 0.3680
Granted	12,780,658	0.1582
Exercised	(270,000)	0.1000
Expired	<u>(2,739,700)</u>	<u>0.3443</u>
Outstanding, end of year	<u>13,139,606</u>	<u>\$ 0.1743</u>
Exercisable, end of year	<u>1,708,948</u>	<u>\$ 0.3111</u>

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# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

September 30, 2004 and 2003

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### 10. Capital stock (cont'd)

#### Stock options (cont'd)

All options granted prior to the 2003 fiscal year vested immediately. The following vesting matrix, based on gross annual sales and common stock price, applies to all stock options granted during the 2003 and 2004 fiscal years:

<u>Percentage</u>	<u>Gross Annual Sales</u>	<u>Common Stock Price</u>
25%	\$ 5,000,000	\$0.50
50%	\$10,000,000	\$1.00
75%	\$15,000,000	\$2.00
100%	\$20,000,000	\$3.00

The following table summarizes information about the stock options outstanding at September 30, 2004:

<u>Exercise Price</u>	<u>Number Outstanding</u>	<u>Remaining Contractual Life (years)</u>	<u>Number Exercisable</u>
0.1000	250,000	2.67	250,000
0.1500	9,490,658	3.58	2,372,665
0.2000	472,759	3.75	180,259
0.2300	240,000	1.75	240,000
0.3000	50,000	1.33	50,000
0.5000	500,000	4.79	125,000
0.5300	50,000	4.77	12,500
0.5700	480,000	4.83	120,000
0.5900	125,000	4.67	125,000
0.6400	30,000	4.33	7,500
0.7100	1,550,000	4.25	387,500
0.7200	405,500	0.50	405,500
0.7400	<u>3,650,527</u>	4.58	<u>912,632</u>
	<u>17,294,444</u>		<u>5,188,556</u>

#### Warrants

The Company has 3,870,000 warrants outstanding at September 30, 2004 (2003 - 14,508,375). These warrants are exercisable at the option of the holder into common shares at a price ranging from \$0.10 to \$0.12 per share and expire November 29, 2004 to May 13, 2005.

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## CV Technologies Inc.

### Notes to the Consolidated Financial Statements

September 30, 2004 and 2003

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#### 10. Capital stock (cont'd)

##### Warrants (cont'd)

A summary of the status of the Company's warrants as of September 30, 2004 and 2003, and changes during the years ending on those dates is presented below:

<u>September 30, 2004</u>	<u>Warrants</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of year	14,508,375	\$ 0.1112
Exercised	<u>(10,638,375)</u>	<u>0.1074</u>
Outstanding, end of year	<u>3,870,000</u>	<u>\$ 0.1181</u>
Exercisable, end of year	<u>3,870,000</u>	<u>\$ 0.1181</u>

<u>September 30, 2003</u>	<u>Warrants</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of year	1,053,375	\$ 0.1498
Granted	13,755,000	0.1080
Exercised	<u>(300,000)</u>	<u>0.1000</u>
Outstanding, end of year	<u>14,508,375</u>	<u>\$ 0.1112</u>
Exercisable, end of year	<u>14,508,375</u>	<u>\$ 0.1112</u>

The following table summarizes information about the warrants outstanding at September 30, 2004:

<u>Exercise Price</u>	<u>Number Outstanding</u>	<u>Remaining Contractual Life (years)</u>	<u>Number Exercisable</u>
0.1000	370,000	0.15	370,000
0.1200	<u>3,500,000</u>	0.66	<u>3,500,000</u>
	<u>3,870,000</u>		<u>3,870,000</u>

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## CV Technologies Inc.

### Notes to the Consolidated Financial Statements

September 30, 2004 and 2003

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<b>11. Contributed surplus</b>	<u><b>2004</b></u>	<u><b>2003</b></u>
Balance, beginning of year	\$ -	\$ -
Increase from stock-based compensation recognition of fair value of stock options granted to non-employees	<u>71,558</u>	<u>-</u>
Balance, end of year	<u>\$ 71,558</u>	<u>\$ -</u>

The Company uses the Black-Scholes option-pricing model to estimate the fair value of the options granted to non-employees. The following weighted average assumptions were used for the year ended September 30, 2004, resulting in a weighted average fair value of \$0.40 per option:

Dividend yield	0.00%
Volatility	114.9%
Risk free interest rate	4.11%
Expected life (years)	3 years

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

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<b>12. Earnings (loss) per share</b>	<u><b>2004</b></u>	<u><b>2003</b></u>
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The following table sets forth the computation of basic and diluted earnings per share:

Numerator for basic earnings (loss) per share	<u>\$ 150,918</u>	<u>\$ (1,795,928)</u>
Denominator:		
Weighted average number of common shares	<u>87,826,426</u>	<u>70,709,758</u>
Denominator for basic earnings per share	<b>87,826,426</b>	70,709,758
Dilutive effect of stock options	<b>2,501,727</b>	-
Dilutive effect of warrants	<u>4,291,919</u>	<u>-</u>
Denominator for diluted earnings per share	<u>94,620,072</u>	<u>70,709,758</u>
Earnings (loss) per share - basic and diluted	<u>\$ 0.00</u>	<u>\$ (0.03)</u>

The convertible debenture had an anti-dilutive effect on earnings per share in both the current and prior year.

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## CV Technologies Inc.

### Notes to the Consolidated Financial Statements

September 30, 2004 and 2003

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#### 13. Stock-based compensation 2004 2003

As required per the CICA's new standard for stock-based payments for options granted after October 31, 2002, disclosure of the impact on earnings and earnings per share, as if the fair value based method of accounting for the stock-based compensation had been applied is shown in the chart below for the respective years.

Net earnings (loss) as reported for the year	\$ <b>150,918</b>	\$ (1,795,928)
Pro forma current year compensation cost	<u>\$ (1,719,792)</u>	<u>\$ (139,924)</u>
Pro forma net loss for the year	<u>\$ (1,568,874)</u>	<u>\$ (1,935,852)</u>
Earnings (loss) per share as reported - basic and diluted	\$ <b>0.00</b>	\$ (0.03)
Pro forma loss per share - basic and diluted	\$ <b>(0.02)</b>	\$ (0.03)

The Company uses the Black-Scholes option-pricing model to estimate the fair value of the options granted to employees. The following weighted average assumptions were used for the year ended September 30, 2004, resulting in a weighted average fair value of \$0.50 (2003 - \$0.09) per option:

Dividend yield	0.00%	0.00%
Volatility	115.6%	113.6%
Risk free interest rate	4.25%	3.44%
Expected life (years)	3 years	3 years

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

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#### 14. Supplemental cash flow information 2004 2003

Cash and cash equivalents consist of:

Balances with banks	\$ <b>24,669</b>	\$ 28,627
Cheques issued in excess of funds on deposit	<u>(205,639)</u>	<u>(45,799)</u>
	<u>\$ (180,970)</u>	<u>\$ (17,172)</u>
Interest paid	<u>\$ <b>45,591</b></u>	<u>\$ 39,266</u>

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# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

September 30, 2004 and 2003

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### 14. Supplemental cash flow information (cont'd)

Non-cash financing and investing activity:		
Purchase of assets under capital leases	<u>\$ 62,232</u>	<u>\$ -</u>
Conversion of debenture payable to capital stock (Note 7)	<u>\$ 305,098</u>	<u>\$ -</u>
Transfer of capital assets in settlement of outstanding lease liability (Note 21)	<u>\$ -</u>	<u>\$ 431,748</u>

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### 15. Related party transactions

During the year, the Company paid fees of \$nil (2003 - \$12,750) to P.R.P. Consulting Ltd., which is controlled by a former officer and director of the Company. This amount was paid as part of the former officer and director's severance package and has been included in consulting fees.

During the year interest of \$21,957 (2003 - \$33,140) was incurred on a debenture owing to a director of the Company (Note 7). During the year, this debenture was converted into common shares of the Company.

The related party transactions occurred during normal course of operations and were measured at their exchange amounts, which was the consideration established and agreed to by the related parties.

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### 16. Income taxes

#### Non-capital losses

The Company has non-capital losses available for carry-forward of \$10,705,549. The benefits of these losses have not been recognized in these financial statements. These losses are available to reduce income taxes in future years and, if not utilized will expire as follows:

	Income Tax <u>Losses</u>
2005	\$ 296,340
2006	1,792,404
2007	2,650,530
2008	3,062,082
2009	947,494
2010	<u>1,956,699</u>
	<u>\$ 10,705,549</u>

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# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

September 30, 2004 and 2003

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### 16. Income taxes (cont'd)

#### Scientific research and experimental development (SR & ED)

The Company has accumulated a Scientific Research and Experimental Development pool of \$2,597,876, which can be carried forward indefinitely to be utilized in computing taxable income in future years. The Company has non-refundable SR & ED investment tax credits of approximately \$549,636. The SR & ED claim for 2004 and 2003 have yet to be filed.

#### Income tax expense reconciliation

Income tax expense differs from the amount computed by applying the statutory provincial and federal income tax rates to the respective years' earnings before income taxes. These differences result from the following items:

	<u>2004</u>	<u>2003</u>
Expected income tax expense (recovery) at 34.59% (2003 - 37.37%)	\$ 52,203	\$ (671,048)
Increase (decrease) resulting from:		
Loss attributable to foreign subsidiary	5,209	49,501
Income tax rate adjustments	144,387	449,736
Non-deductible costs	31,477	2,249
Non-capital loss carry-over adjustments	576,804	523,727
Share issue costs	-	(20,103)
SR & ED adjustments	(249,441)	(507,152)
Other	(3,729)	(2,745)
Change in valuation allowance	<u>(556,910)</u>	<u>175,835</u>
Income tax expense	<u>\$ -</u>	<u>\$ -</u>

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# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

September 30, 2004 and 2003

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### 16. Income taxes (cont'd)

#### Temporary differences

A future income tax asset results when the carrying amounts of assets and liabilities for financial reporting purposes are less than the amounts used for income tax purposes. This deductible temporary difference will result in lower taxable income in future years.

The tax effects of deductible temporary differences that give rise to the Company's future tax assets are as follows:

	<u>2004</u>	<u>2003</u>
Capital and other assets	\$ 173,291	\$ 158,024
Share issue costs	25,218	48,409
Non-capital losses and SR & ED expenditures carried forward	<u>4,845,445</u>	<u>5,394,431</u>
	<u>5,043,954</u>	<u>5,600,864</u>
Less: Valuation allowance	<u>(5,043,954)</u>	<u>(5,600,864)</u>
Net future tax asset	<u>\$ -</u>	<u>\$ -</u>

A valuation allowance is recognized to the extent that recoverability of future tax assets is not considered more likely than not.

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### 17. Significant customers

During 2004, five major customers accounted for \$4,130,229 or 64.4% (2003 - \$1,040,577 or 67.4%) of the Company's product sales. As at September 30, 2004, two customers represented 42.4% and 15.2% (2003 - 20.4% and 17.6%) respectively of total accounts receivable.

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### 18. Segmented information

Segmented information has not been disclosed as the Company is operating within one operating segment.

<b>Geographic information:</b>	<u>2004</u>	<u>2003</u>
Revenue:		
Canada	\$ 6,178,574	\$ 1,041,632
United States	<u>238,158</u>	<u>501,694</u>
	<u>\$ 6,416,732</u>	<u>\$ 1,543,326</u>

Substantially all of the Company's assets are held in Canada.

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# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

September 30, 2004 and 2003

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### 19. Commitments and contingencies

- a) The Company has an agreement with the National Research Council of Canada to obtain up to \$495,000 in assistance for research and development expenditures. As of September 30, 2002, all assistance under this agreement had been received.

The Company is obliged to repay the financial assistance by way of 1.5% of the Company's gross revenues, which commenced April 1, 2002, up to a maximum of \$742,000, which is 150% of the original contribution amount. The obligation to pay terminates at the earlier of the full repayment of the \$742,000 or 10 years after the start of the repayment period. The Company is not obliged to repay any of the grants received should the Company have no future revenues on product sales.

During the year, the Company accrued \$96,984 (2003 - \$25,712) of this financial assistance, which was charged to earnings. At September 30, 2004 \$86,984 (2003 - \$4,549) is included in payables and accruals. Up to September 30, 2004, the Company has expensed \$129,529 since inception relating to this agreement.

- b) The Company has an agreement with AVAC Ltd. to obtain up to \$525,000 in assistance to fund continued development of the proprietary ChemBioPrint technology platform and CVT-E002. As at September 30, 2004, \$8,333 (2003 - \$8,333) of assistance is still available to the Company.

The Company is obliged to repay the financial assistance by way of 1.5% of the Company's gross revenues after January 1, 2002 up to 200% of the original contribution amount or to a maximum of \$1,000,000. The Company is not obliged to repay any of the assistance received should the Company have no future revenues on product sales.

During the year, the Company accrued \$96,984 (2003 - \$25,712) of this financial assistance, which was charged to earnings. At September 30, 2004 \$96,984 (2003 - \$38,125) is included in payables and accruals. Up to September 30, 2004, the Company has expensed \$135,109 since inception relating to this agreement.

- c) The Company has entered into an agreement to lease new premises in Calgary, Alberta requiring minimum annual lease payments of \$72,000 for the next five years. In addition, the Company must pay a proportionate share of common area costs. The initial lease term expires April 30, 2009 with a renewal period extending to April 30, 2013.
- d) The Company has entered into an agreement to lease a premise in Edmonton, Alberta requiring minimum annual lease payments of \$47,254 for the next five years. In addition, the Company must pay a proportionate share of common area costs. The initial lease term expires April 30, 2009.

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# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

September 30, 2004 and 2003

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### 20. Joint venture

On October 29, 2002 the Company entered into a joint venture with Centaur Pharmaceuticals, a private company, in the creation of Vet Ex Inc. The joint venture, in which the Company holds a 60% interest, has licensed the veterinary rights for the Company's nutraceutical products and ChemBioPrint technology.

The Company has recorded its interest in Vet Ex Inc. using the proportionate consolidation method. The following table summarizes the Company's share of the assets, liabilities, revenue, expenses and cash flows of Vet Ex Inc. included in these consolidated financial statements.

Assets		
Cash and cash equivalents	\$ 22,558	\$ 17,892
Receivables	-	3,516
	<u>\$ 22,558</u>	<u>\$ 21,408</u>
Liabilities		
Payables and accruals	\$ 77	\$ -

### Revenues, expenses and cash flows for the year ended September 30, 2004:

Revenue	\$ 1,107	\$ -
Expenses		
Selling, general and administrative	33	5,274
Quality control, clinical research and development	-	3,319
	<u>33</u>	<u>8,593</u>
Net earnings (loss)	\$ 1,074	\$ (8,593)
Cash flows		
Cash flows from operating activities	\$ 4,666	\$ (12,108)
Cash flows from investing activities	-	30,000
	<u>\$ 4,666</u>	<u>\$ 17,892</u>

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### 21. Loss on settlement of lease

During the 2003 fiscal year, the Company settled outstanding liabilities from a lease agreement for its Edmonton premises. The consideration included a transfer of capital assets and a one-time cash payment with a resulting loss of \$363,942.

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**CV Technologies Inc.**  
**Notes to the Consolidated Financial Statements**  
September 30, 2004 and 2003

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**22. Subsequent events**

- a) Subsequent to year-end, 662,259 options were exercised for cash proceeds of \$161,555.
  - b) Subsequent to year-end, 805,000 warrants were exercised for cash proceeds of \$90,500.
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**23. Comparative figures**

Certain prior year figures have been reclassified to conform to the current year's presentation.