

CV Technologies Inc.
Consolidated
Financial Statements
December 31, 2004

These financial statements have not been reviewed by the auditors.

CV Technologies Inc.

Consolidated Statements of Earnings

(Un-audited – Prepared by Management)

For the three month period ended December 31

2004

2003

Product sales	<u>\$ 11,303,653</u>	<u>\$ 1,755,675</u>
Direct costs		
Product costs	2,637,535	398,827
Freight	311,344	58,262
Commission and brokerage	<u>353,988</u>	<u>106,383</u>
	<u>3,302,867</u>	<u>563,472</u>
Gross margin (70.8%, 2003 – 67.9%)	<u>8,000,786</u>	<u>1,192,203</u>
Other revenue		
Interest	-	747
Sub-contract	<u>-</u>	<u>20,000</u>
	<u>-</u>	<u>20,747</u>
Operating expenses		
Advertising and marketing	2,059,473	253,286
Salaries and employee benefits	354,826	260,598
Stock options compensation (Note 2)	538,199	-
Quality control, clinical research and development	459,578	190,070
Office and occupancy	124,347	65,400
Travel	75,007	26,177
Public and investor relations	22,676	68,408
Professional fees	39,042	24,991
Amortization	33,784	22,723
Consulting fees	23,370	4,430
Insurance and licenses	20,001	15,323
Business promotions and donations	45,420	7,833
Interest and bank charges	<u>11,177</u>	<u>9,230</u>
	<u>3,806,896</u>	<u>948,469</u>
Earnings before non-controlling interest		
share of subsidiary's loss	4,193,886	264,481
Non-controlling interest share of subsidiary's loss	<u>2,206</u>	<u>1,198</u>
Net earnings	<u>\$ 4,196,092</u>	<u>\$ 265,679</u>

See accompanying notes to the consolidated financial statements.

CV Technologies Inc.
Consolidated Statements of Deficit

(Un-audited – Prepared by Management)

For the three month period ended December 31

2004

2003

Deficit, beginning of period, as previously reported	\$ (14,250,917)	\$ (14,770,984)
Adjustment for stock-based compensation (Note 2)	<u>(1,859,716)</u>	<u>-</u>
As restated	(16,110,633)	(14,770,984)
Net earnings	<u>4,196,092</u>	<u>265,679</u>
Deficit, end of period	<u>\$ (11,914,541)</u>	<u>\$ (14,505,305)</u>

Earnings per share

- Basic	\$	0.05	\$	0.00
- Diluted		0.04		0.00

See accompanying notes to the consolidated financial statements.

CV Technologies Inc.

Consolidated Balance Sheets

(Un-audited – Prepared by Management)

	December 31, 2004 (Un-audited)	September 30, 2004 (Audited)
Assets		
Current		
Cash and cash equivalents	\$ 956,123	\$ -
Receivables	7,221,824	1,949,061
Inventory	2,456,745	2,398,666
Prepaid expenses	206,779	289,768
	<u>10,841,471</u>	<u>4,637,495</u>
Patents and registered trademarks (Note 3)	857,778	853,872
Capital assets (Note 4)	311,986	200,560
Deferred development costs	<u>1,808,006</u>	<u>1,808,006</u>
	<u>\$ 13,819,241</u>	<u>\$ 7,499,933</u>
Liabilities		
Current		
Bank indebtedness (Note 5)	\$ -	\$ 180,970
Demand loan (Note 6)	-	1,275,000
Payables and accruals	3,864,100	1,228,983
Current portion of obligations under capital leases (Note 8)	18,857	17,144
Current portion of lease inducement	<u>11,016</u>	<u>11,016</u>
	<u>3,893,973</u>	<u>2,713,113</u>
Deferred license revenue	30,000	30,000
Obligations under capital leases (Note 8)	37,288	38,790
Lease inducement	<u>36,255</u>	<u>39,008</u>
	<u>3,997,516</u>	<u>2,820,911</u>
Non-controlling interest (Note 9)	<u>22,508</u>	<u>24,714</u>
Shareholders' Equity		
Capital stock (Note 10)	19,244,285	18,833,667
Contributed surplus (Note 11)	2,469,473	71,558
Deficit	<u>(11,914,541)</u>	<u>(14,250,917)</u>
	<u>9,799,217</u>	<u>4,654,308</u>
	<u>\$ 13,819,241</u>	<u>\$ 7,499,933</u>

Commitments and contingencies (Note 14)

See accompanying notes to the consolidated financial statements.

CV Technologies Inc.

Consolidated Statements of Cash Flows

(Un-audited – Prepared by Management)

For the three month period ended December 31

2004

2003

Increase (decrease) in cash and cash equivalents

Operating

Net earnings	\$ 4,196,092	\$ 265,679
Amortization	33,784	22,723
Non-controlling interest share of subsidiary's loss	(2,206)	(1,198)
Accrued interest on debenture payable	-	7,338
Stock based compensation expense	538,199	-
	<u>4,765,869</u>	<u>294,542</u>
Change in non-cash operating balances		
Receivables	(5,272,763)	(731,665)
Inventory	(58,079)	(1,038,661)
Prepaid expenses	82,989	(81,133)
Payables and accruals	2,635,117	1,151,573
Lease inducements	(2,753)	6,000
	<u>(2,615,489)</u>	<u>(693,883)</u>
	<u>2,150,380</u>	<u>(399,344)</u>

Financing

Repayment of demand loan	(1,275,000)	-
Repayment of obligations under capital leases	(4,189)	(493)
Issuance of capital stock	410,618	1,216,665
	<u>(868,571)</u>	<u>1,216,172</u>

Investing

Purchase of capital assets	(122,936)	(65,054)
Purchase of patents and registered trademarks	(21,780)	-
	<u>(144,716)</u>	<u>(65,054)</u>

Increase in cash and cash equivalents 1,137,093 751,774

Cash and cash equivalents (bank indebtedness)

Beginning of period	<u>(180,970)</u>	<u>(17,172)</u>
End of period	\$ <u>956,123</u>	\$ <u>734,602</u>

Supplemental cash flow information (Note 13)

See accompanying notes to the consolidated financial statements.

CV Technologies Inc.

Notes to the Consolidated Financial Statements

For the three month ended December 31, 2004

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".

2. Summary of significant accounting policies

The consolidated financial statements of the company have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgment with reasonable limits of materiality. These interim consolidated financial statements should be read in conjunction with the most recent annual consolidated financial statements. The significant accounting policies follow that of the most recently reported annual consolidated financial statements.

Stock-based compensation

The Company has adopted the Canadian accounting standard outlined in the CICA Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments." As permitted by the standard, this policy has been adopted retroactively effective October 1, 2004 without restatement of prior periods financial statements. This new section provides for the fair-value method to record stock-based compensation expense with respect to stock options granted. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model. As a result, the Company adjusts its opening retained earnings for \$1,859,716 in fiscal 2005 to reflect the cumulative effect of the change on prior periods.

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 gain of \$11,130 (2004 – loss of 938) arising from these translations are included in the consolidated statements of earnings.

CV Technologies Inc.

Notes to the Consolidated Financial Statements

For the three month ended December 31, 2004

3. Patents and registered trademarks

December 31, 2004

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Patents	\$ 1,185,856	\$ 407,626	\$ 778,230
Registered trademarks	<u>126,779</u>	<u>47,231</u>	<u>79,548</u>
	<u>\$ 1,312,635</u>	<u>\$ 454,857</u>	<u>\$ 857,778</u>

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>

4. Capital assets

December 31, 2004

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Furniture and equipment	\$ 152,739	\$ 74,227	\$ 78,512
Computer hardware	72,979	16,118	56,861
Computer software	69,313	30,375	38,938
Lab equipment	84,197	2,336	81,861
Equipment under capital leases	<u>66,188</u>	<u>10,374</u>	<u>55,814</u>
	<u>\$ 445,416</u>	<u>\$ 133,430</u>	<u>\$ 311,986</u>

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>

CV Technologies Inc.

Notes to the Consolidated Financial Statements

For the three month ended December 31, 2004

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.

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. At December 31, 2004, the Company had drawn \$Nil on the line of credit (September 30, 2004 - \$1,275,000). 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.

7. Debenture payable

During fiscal year 2004, 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.

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	\$	25,286
2006		25,286
2007		17,293
2008		2,487
2009 and thereafter		<u>1,732</u>
Total minimum lease payments		72,084
Less: amounts representing interest at a weighted average rate of 13.99%		<u>15,939</u>
Balance of obligations under capital leases		56,145
Less: current portion		<u>18,857</u>
Long term balance of obligations under capital leases	\$	<u>37,288</u>

CV Technologies Inc.

Notes to the Consolidated Financial Statements

For the three month ended December 31, 2004

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.

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, 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	91,588,201	\$ 18,833,667
Exercise of options	833,509	253,618
Exercise of warrants	<u>1,370,000</u>	<u>157,000</u>
Balance December 31, 2004	<u>93,791,710</u>	<u>\$ 19,244,285</u>

CV Technologies Inc.

Notes to the Consolidated Financial Statements

For the three month ended December 31, 2004

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 December 31, 2004 there are 16,465,435 (September 30, 2004 - 17,294,444) stock options outstanding, exercisable at prices ranging from \$0.10 to \$0.72 that expire between March 27, 2005 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:

December 31, 2004

	<u>Stock Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of period	17,294,444	\$ 0.3676
Reinstated	4,500	0.2900
Exercised	<u>(833,509)</u>	<u>0.3043</u>
Outstanding, end of period	<u>16,465,435</u>	<u>\$ 0.3708</u>
Exercisable, end of period	<u>8,394,843</u>	<u>\$ 0.3775</u>

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>

CV Technologies Inc.

Notes to the Consolidated Financial Statements

For the three month ended December 31, 2004

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 after October 1, 2002:

<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 December 31, 2004:

<u>Exercise Price</u>	<u>Number Outstanding</u>	<u>Remaining Contractual Life (years)</u>	<u>Number Exercisable</u>
0.1000	250,000	2.42	250,000
0.1500	9,053,158	3.33	4,307,829
0.2000	377,500	3.50	182,500
0.2300	240,000	1.50	240,000
0.3000	35,000	1.08	35,000
0.5000	375,000	4.54	125,000
0.5300	37,500	4.52	12,500
0.5700	473,750	4.58	233,750
0.6400	30,000	4.05	15,000
0.7100	1,550,000	4.00	775,000
0.7200	405,500	0.25	405,500
0.7400	<u>3,638,027</u>	4.33	<u>1,812,764</u>
	<u>16,465,435</u>		<u>8,394,843</u>

Warrants

The Company has 2,500,000 warrants outstanding at December 31, 2004 (September 30, 2004 – 3,870,000). These warrants are exercisable at the option of the holder into common shares at \$0.12 per share and expire on May 13, 2005.

CV Technologies Inc.

Notes to the Consolidated Financial Statements

For the three month ended December 31, 2004

10. Capital stock (cont'd)

Warrants (cont'd)

A summary of the status of the Company's warrants as of December 31 and September 30, 2004, and changes during the period ending on those dates is presented below:

<u>December 31, 2004</u>	<u>Warrants</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of period	3,870,000	\$ 0.1181
Exercised	<u>(1,370,000)</u>	<u>0.1146</u>
Outstanding, end of period	<u>2,500,000</u>	<u>\$ 0.1200</u>
Exercisable, end of period	<u>2,500,000</u>	<u>\$ 0.1200</u>

<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>

The following table summarizes information about the warrants outstanding at December 31, 2004:

<u>Exercise Price</u>	<u>Number Outstanding</u>	<u>Remaining Contractual Life (years)</u>	<u>Number Exercisable</u>
0.1200	<u>2,500,000</u>	0.41	<u>2,500,000</u>

CV Technologies Inc.

Notes to the Consolidated Financial Statements

For the three month ended December 31, 2004

11. Contributed surplus	December 31, 2004	September 30, 2004
Balance, beginning of period	\$ 71,558	\$ -
Retroactive application of stock-based compensation according to CICA 3870 (Note 2)	1,859,716	-
Stock-based compensation recognition of fair value of stock options granted to:		
- Non-employees	-	71,558
- Employees	<u>538,199</u>	<u>-</u>
Balance, end of period	<u>\$ 2,469,473</u>	<u>\$ 71,558</u>

The Company uses the Black-Scholes option-pricing model to estimate the fair value of the options granted. The following weighted average assumptions were used for the period ended December 31, 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.

12. Earnings per share	December 31, 2004	September 30, 2003
The following table sets forth the computation of basic and diluted earnings per share:		
Numerator for basic earnings per share	<u>\$ 4,196,092</u>	<u>\$ 150,918</u>
Denominator:		
Weighted average number of common shares	<u>91,811,127</u>	<u>87,826,426</u>
Denominator for basic earnings per share	91,811,127	87,826,426
Dilutive effect of stock options	5,027,352	2,501,727
Dilutive effect of warrants	<u>2,892,491</u>	<u>4,291,919</u>
Denominator for diluted earnings per share	<u>99,730,970</u>	<u>94,620,072</u>
Earnings per share		
- Basic	\$ 0.05	\$ 0.00
- Diluted	0.04	0.00

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

CV Technologies Inc.

Notes to the Consolidated Financial Statements

For the three month ended December 31, 2004

13. Supplemental cash flow information	December 31, <u>2004</u>	December 31, <u>2003</u>
Interest paid	\$ <u>11,177</u>	\$ <u>2,092</u>
Non-cash financing and investing activity:		
Purchase of assets under capital leases	\$ <u>4,400</u>	\$ <u>14,980</u>

14. 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 period, the Company accrued \$173,113 (December 31, 2003 - \$24,242) of this financial assistance, which was charged to earnings. At December 31, 2004, \$215,097, (September 30, 2004 - \$86,984) is included in payables and accruals. Up to December 31, 2004, the Company has expensed \$302,642 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 December 31, 2004, \$8,333 (2004 - \$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 period, the Company accrued \$173,113 (December 31, 2003 - \$24,242) of this financial assistance, which was charged to earnings. At December 31, 2004, \$270,097 (September 30, 2004 - \$96,984) is included in payables and accruals. Up to September 30, 2004, the Company has expensed \$308,222 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.

CV Technologies Inc.

Notes to the Consolidated Financial Statements

For the three month ended December 31, 2004

14. Commitments and contingencies (cont'd)

- 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.

15. 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.

	December 31, 2004	September 30, 2004
Assets		
Cash and cash equivalents	\$ 22,546	\$ 22,558
Liabilities		
Payables and accruals	\$ 77	\$ -
Revenues, expenses and cash flows for the period ended		
Revenue	\$ -	\$ 1,107
Expenses		
Selling, general and administrative	12	33
Net earnings (loss)	\$ 12	\$ 1,074
Cash flows		
Cash flows from operating activities	\$ (12)	\$ 4,666

CV Technologies Inc.
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For the three month ended December 31, 2004

16. Subsequent events

Subsequent to year-end, 850,500 options were exercised for cash proceeds of \$222,735.

17. Comparative figures

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