

**MANAGEMENT DISCUSSION AND ANALYSIS**

The Company's consolidated financial statements are prepared in accordance with Generally Accepted Accounting Principles in Canada. These accounting principles require us 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 upon which it relies are reasonably 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 CV Technologies Inc. Actual results may differ under different assumptions and conditions. The following information should be read in conjunction with the Audited Consolidated Financial Statements for the year ended September 30, 2004 and the Un-audited Consolidated Financial Statements for the three month period ending December 31, 2004 and accompanying notes.

This discussion and analysis for the three month period ending December 31, 2004 is prepared as of January 28, 2005 and contains disclosure of material changes occurring up to and including February 4, 2005

**Forward-looking statements**

Management's discussion and analysis contains certain forward-looking statements that are subject to risks and uncertainties that may cause actual results or events to differ materially from the results or events predicted in this discussion. In addition to the risks outlined in the Risk Management section at the end of the discussion, factors which could cause actual results or events to differ include, but are not limited to: 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; and product development. No assurance can be given that the results, performance or achievements expressed in, or implied by, forward-looking statements within this disclosure will occur, or if they do, that any benefits may be derived from them.

**Overview**

CV Technologies Inc. ("CVT" or the "Company") is a life sciences and technology company, based in Canada. CVT has developed, commercialized, and patented a proprietary technology, known as ChemBioPrint, which is used to discover and biologically standardize natural products that deliver consistent, verifiable and provable health benefits. Using the ChemBioPrint technology, the Company's scientists are able to ensure that the creation and scientific substantiation of its natural health products are safe, effective and consistent. CVT is committed to using a pharmaceutical development approach (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 enabling CVT to secure the trust of consumers, trade professionals, healthcare practitioners, and government.

CVT's lead product, COLD-fx®, is designed to prevent and treat colds and flu by strengthening the immune system. All CVT products are designed to support normal physiological/body functions with a user-friendly, natural compound. Utilizing its patented ChemBioPrint technology, CVT has developed and commercialized a selection of premium quality natural health products for health maintenance and disease prevention.

- |                 |   |
|-----------------|---|
| 1. COLD-fx®     | Supports, strengthens, and stimulates the body's immune system                    |
| 2. REMEMBER-fx® | Relieves brain fatigue and improves memory  |
| 3. AD-fx®       | Supports concentration and cognition  |
| 4. MENTA-fx®    | Normalizes mood states and improves confidence                                    |
| 5. CELL-fx®     | Soothes sore joints and normalizes cell growth                                    |
| 6. PRESSURE-fx® | Supports cardiovascular function and helps maintain healthy blood pressure levels |

**CV TECHNOLOGIES INC.**

Quarterly Report for the Three Month Period Ended

December 31, 2004

Liquidity and Capital Resources

| <b>Comparative Liquidity</b> (in thousands) | <b>Quarter 1</b><br><b>Dec 31, 2004</b> | <b>Quarter 1</b><br><b>Dec 31, 2003</b> | <b>Fiscal Year</b><br><b>Sep 30, 2004</b> |
|---|---|---|---|
| Bank indebtedness                           | 0                                       | 0                                       | 181                                       |
| Working capital                             | 6,948                                   | 1,642                                   | 1,924                                     |
| Long-term liabilities                       | 126                                     | 71                                      | 108                                       |

Bank indebtedness consists of cheques issued in excess of funds on deposit and bank overdrafts. The Company has a demand operating credit facility of up to a maximum of \$2.5 million based on receivables, inventory, and tax credits. The Company had not utilized its credit facility as shown in the working capital summary above. The company was in a positive cash position of \$0.9 million as of December 31<sup>st</sup>, 2004.

| <b>Major cash flow components</b> (in thousands) | <b>Quarter 1</b><br><b>Dec 31, 2004</b> | <b>Quarter 1</b><br><b>Dec 31, 2003</b> | <b>Fiscal year</b><br><b>Sep 30, 2004</b> | <b>Fiscal Year</b><br><b>Sep 30, 2003</b> |
|--|---|---|---|---|
| Operating activities                             | 2,150                                   | (400)                                   | (2,513)                                   | (1,214)                                   |
| Financing activities                             | (869)                                   | 1,216                                   | 2,539                                     | 1,391                                     |
| Investing activities                             | (145)                                   | (65)                                    | (190)                                     | (205)                                     |

Cash provided from operating activities affecting cash during the first quarter of fiscal year 2005 was \$2.1 million (use of \$0.4 million in first quarter fiscal year 2004). The net change of \$2.5 million can be attributed to the substantial improvement in profitability in the quarter (\$4.2 million in fiscal year 2005, \$0.3 million in fiscal year 2004). Net changes in non-cash working capital items used cash of \$2.7 million as compared to \$0.7 million provided in the first quarter of the prior year. As a result, the net cash provided in operating activities in the first quarter was \$2.2 million in fiscal year 2005 versus a net use of \$0.7 million in fiscal year 2004. The largest component of this change relates to the substantial increase in sales over the prior year whereby accounts receivable and payables have all increased accordingly.

The Company's financing activities in the first quarter of fiscal 2005 used \$0.9 million (generated \$1.4 million in fiscal 2004) of cash during the year. The financing activity was primarily comprised of a \$1.3 million repayment of the demand loan and \$0.4 million issuance of share capital (833,509 common shares).

The Company's investing activities in the first quarter used \$144 thousand (\$65 thousand in fiscal year 2004) of cash. Investing activities primarily consisted of equipment purchases and the acquisition of patents and trademarks in support of its business strategy. Expenditures for Patents and Registered Trademarks remained consistent stable as the Company continues to invest in the protection of its intellectual property.

Moving forward, the Company expects the existing cash balances, cash generated by operations, and funds available under the credit facility will be sufficient to meet the foreseeable requirements for business growth, working capital, and capital expenditures in fiscal year 2005. The Company's working capital and capital expenditure requirements will depend upon numerous factors including the success of new product introductions, market development programs and long term continued product research and development activities. In the future, the Company may develop requirements for additional capital to fund operations, capital assets additions, research and development, and strategic initiatives.

Share capital and stock based compensation

The Company has adopted and applied the new CICA 3870 standard for stock-based compensation and other stock-based payments. The Company has selected the method of retroactive application without restatement of prior periods during the transitional period.

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Quarterly Report for the Three Month Period Ended

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As a result, adjustment of \$1.86 million was applied to opening deficit in the first quarter of the fiscal year 2005. During the first quarter of the fiscal year of 2005, as required per CICA's new standard, a non-cash expense of \$538 thousand was recognized to reflect the fair value of vested stock options.

### Outstanding Shares

As at January 27, 2005;

- Number of issued and outstanding common Class A shares 94,642,210
- Number of unexercised warrants 2,500,000  
(Exercise price is \$0.12 per share with expiration date in 2005)
- Number of outstanding, unexercised stock options 15,614,935  
(Exercise price ranges from \$0.10 to \$0.74 per share with expiration dates ranging from 2005 to 2009)

### **Results of Operations (Historical and Current)**

#### Revenue

First quarter of fiscal year 2005 was another record quarter for CVT. The Company reported record sales of \$11.3 million, exceeding the \$1.8 million in the first quarter of fiscal year 2004 and the \$6.4 million for the entire fiscal year 2004. This accomplishment was achieved through a substantial increase in the volume of sales of CVT's lead product – COLD-fX®, through national retail partnerships with major Canadian retailers, the product launch of REMEMBER-fX® during the previous year, a continued focus on marketing and advertising of CVT's lead products and through significant product awareness resulting from mainstream media coverage. The Company has received incredible exposure on regional and national TV, word of mouth endorsements, third party validation and extensive publicity resulting from the success of its clinical trials. Targeted advertising and merchandizing has enhanced the Company's presence in the marketplace, while expanding the distribution channels.

A comprehensive advertising and merchandizing campaign was launched featuring national celebrity - Don Cherry, including radio, TV, newspaper and magazine ads along with extensive sponsorship arrangements within the athletic world including sponsorship of the CFL Grey Cup, Canadian Sports Centre Calgary and CHL's TOP PROSPECT Hockey game in Vancouver which was televised nationally.

Management set forth growth objectives for its fiscal year 2005 in the areas of sales, distribution, and operations. The achievement of the following objectives contributed to both the 544% increase in sales in the first quarter of fiscal year 2005 over the same quarter in fiscal year 2004 and the record quarterly profit of \$4.2 million

Due to more than a decade of clinical studies, research, science as well as a result of the Company's patented ChemBioPrint technology, CVT is well positioned to respond to Health Canada's new Natural Health Products Directorate and the Natural Health Products Regulations.

In continuing to strengthen the science of its products, CVT launched a pre-clinical study to investigate the effects of CVT-E002 (the active ingredient in COLD-fX®) in treating immune deficiency related cancers as part of its ongoing strategy to develop natural compounds for disease prevention and health maintenance. This pre-clinical study, which is being conducted in collaboration with McGill University in Montreal, Quebec, will investigate the potential of CVT-E002 to ameliorate leukemia caused by viral infection. The study seeks to provide a further detailed understanding of the effect of CVT-E002 on cancer killing mechanisms in relation to the immune system. The National Research Council (NRC) - Industrial Research Assistance Program (IRAP) has provided funding for the project.

### Gross margin

The Company's first quarter gross margin improved from 68% in fiscal year 2004 to 70% in fiscal year 2005 (an average in the last fiscal year was 66%). This was accomplished through a 544% increase in sales, an increase in economies of scale, and rigorous cost management.

The Company also certified additional vendors in the quality requirements necessary to manufacture its products. These same vendors must also meet the Good Manufacturing Practices set by Health Canada. The capacity of the Company's supply chain for ChemBioPrint products has been significantly expanded to meet increasing demand. The Company's strategy to outsource production and logistical activities aims to further reduce fixed costs and maximize production capacity and flexibility. These strategies have contributed to a 2% improvement in gross margins between quarters.

### Operating Expenses

The first quarter administrative-costs-to-sales percentage has decreased from 54% to 34% with the increase in sales. Operating expenses for the first quarter of fiscal year 2005 were \$3.8 million as compared to \$0.9 million in the prior year.

This \$2.8 million (301%) increase over the same quarter from the prior year is comprised of the following:

- Sales and marketing expenses increased by \$1.8 million. These expenditures were consistent with sales and marketing objectives for the quarter.
- Salaries and benefits and stock compensation expense increased \$0.6 million. The non-cash compensation expense of \$0.5 million was recorded in compliance to the CICA Handbook rule. This expenditure is expected to continue as stock options vest.
- Quality control, clinical research, and development expenses for the first quarter increased by \$0.3 million over the same quarter of last year. Quality control costs increased with the increase in sales, but at a lower rate as a result of improved economies of scale in product testing. In addition, costs were incurred in clinical research and development associated with ongoing studies. The Company is continuing its eighth clinical trial in co-operation with Capital Health of Edmonton and the University of Alberta.

Moving forward, CVT expects business to expand in both sales and profitability. Increases in sales of COLD-fX® and REMEMBER-fX® within the Canadian market, penetration into international markets, and the launching of a new product are anticipated to help support CVT's efforts in growth. Higher profitability will be realized from increases in economies of scale achieved by greater volumes in sales and manufacturing, and cost management through additional vendor certifications.

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| <b>Summary of quarterly results</b> (in thousands) |  |                                     |                                     |                                     |
|--|--|-------------------------------------|-------------------------------------|-------------------------------------|
| <b>Fiscal year 2005</b>                            | <b>1<sup>st</sup> Quarter<br/>Dec 31, 2004</b> | <b>2nd Quarter<br/>Mar 31, 2005</b> | <b>3rd Quarter<br/>Jun 30, 2005</b> | <b>4th Quarter<br/>Sep 30, 2005</b> |
| Revenue  | 11,304   |                                     |                                     |                                     |
| Gross margin                                       | 8,001  |                                     |                                     |                                     |
| Gross margin %                                     | 70.8%  |                                     |                                     |                                     |
| Net earnings (loss)                                | 4,196  |                                     |                                     |                                     |
| Earnings (loss) per share – Basic                  | \$0.05   |                                     |                                     |                                     |
| Earnings (loss) per share – Diluted                | \$0.04   |                                     |                                     |                                     |
| Total assets                                       | 13,819   |                                     |                                     |                                     |
| Total Liabilities                                  | 3,998  |                                     |                                     |                                     |
| <b>Fiscal year 2004</b>                            | <b>1<sup>st</sup> Quarter<br/>Dec 31, 2003</b> | <b>2nd Quarter<br/>Mar 31, 2004</b> | <b>3rd Quarter<br/>Jun 30, 2004</b> | <b>4th Quarter<br/>Sep 30, 2004</b> |
| Revenue  | 1,756  | 1,164                               | 1,227                               | 2,270                               |
| Gross margin                                       | 1,192  | 748                                 | 841                                 | 1,446                               |
| Gross margin %                                     | 67.9%  | 64.3%                               | 68.5%                               | 63.7%                               |
| Net earnings (loss)                                | 266  | (269)                               | (55)                                | 209                                 |
| Earnings (loss) per share – Basic                  | \$0.00   | (\$0.00)                            | (\$0.00)                            | \$0.00                              |
| Earnings (loss) per share – Diluted                | \$0.00   | (\$0.00)                            | (\$0.00)                            | \$0.00                              |
| Total assets                                       | 6,095  | 5,614                               | 5,497                               | 7,500                               |
| Total Liabilities                                  | 1,757  | 1,528                               | 1,134                               | 2,846                               |
| <b>Fiscal year 2003</b>                            | <b>1<sup>st</sup> Quarter<br/>Dec 31, 2002</b> | <b>2nd Quarter<br/>Mar 31, 2003</b> | <b>3rd Quarter<br/>Jun 30, 2003</b> | <b>4th Quarter<br/>Sep 30, 2003</b> |
| Revenue  | 474  | 498                                 | 269                                 | 302                                 |
| Gross margin                                       | 298  | 312                                 | 182                                 | 119                                 |
| Gross margin %                                     | 62.9%  | 62.7%                               | 67.7%                               | 38.9%                               |
| Net earnings (loss)                                | (199)  | (185)                               | (477)                               | (935)                               |
| Loss per share – Basic                             | (\$0.00)                                       | (\$0.00)                            | (\$0.00)                            | (\$0.00)                            |
| Loss per share – Diluted                           | (\$0.00)                                       | (\$0.00)                            | (\$0.00)                            | (\$0.00)                            |
| Total assets                                       | 4,704  | 4,590                               | 4,712                               | 3,452                               |
| Total Liabilities                                  | 950  | 923                                 | 948                                 | 596                                 |

**Subsequent Events**

Subsequent to quarter-end and up to January 28, 2005, 850,500 options and no warrants were exercised for total cash proceeds of \$222,735.

On January 11, 2005, CVT announced the appointment of Gordon Brown, CGA as Chief Financial Officer. Mr. Brown has more than 15 years experience in corporate finance and has had direct experience in implementing systems and controls to manage companies experiencing accelerated growth.

**Risks and Uncertainties**

The Company is in the early commercialization stage with its lead natural health product, COLD-fX®. In order to gain a successful market share, CVT will be required to increase expenditures for advertising and promotion. Future success will be dependent on advertising and promotional activities, mainstream media coverage, the effectiveness and safety of the Company's products, regulatory approval for its products and the degree of patent protection afforded to particular products. The Company maintains product liability insurance; however, it is possible that this coverage might not provide full protection against all risks. CVT has a well developed Quality Control and Quality Assurance program to ensure product quality.

Expectations about the Company's financial and scientific results could have a significant effect on the trading price of the Company's shares. Except for historical information, certain matters discussed in this report are by their nature forward-looking statements that involve risk and uncertainties, which may cause actual results to differ materially from the statements made.

**Outlook**

Quarter 1 of fiscal 2005 was another record quarter for sales and profitability for CVT. The Management Team has demonstrated an excellent start in meeting its commitment to enhancing the Company's profitability in 2005 by maximizing the revenues, increasing awareness, expanding distribution of all products while maintaining a strong cost management program. Management will continue its targeted marketing and commercialization efforts and will seek to support plans for profitable growth through increased distribution and enhanced productivity. Management will work to enhance demand for REMEMBER-fX® and also launch another ChemBioPrint product.

The remainder of fiscal year 2005 will also provide an opportunity for CV Technologies to continue to improve consumer awareness of its products within Eastern Canada and Quebec and continue to develop strategies to expedite its international growth objectives. CVT will continue to build sales momentum with effective brand management, targeted sales and marketing efforts and mainstream media coverage and a focus on operational excellence and supply chain management. CVT will continue to strengthen the scientific claims for its products through clinical trials. Management expects to further expand the number of its certified vendors to support sales and manage costs. With stronger customer relationships, management is committed to making CVT's products, COLD-fX® and REMEMBER-fX®, strong performers within their categories.

Management is confident that 2005 will be a year where CV Technologies Inc. will continue to prove that it is a world leader in the discovery and commercialization of natural therapeutics for health maintenance and disease prevention, and is a well recognized and respected supplier to the natural health products industry.