

MANAGEMENT DISCUSSION AND ANALYSIS

Second Quarter 2005

March 31, 2005

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 Unaudited Consolidated Financial Statements for the six month period ending March 31, 2005 and accompanying notes. All amounts are expressed Canadian dollars.

This discussion and analysis for the six month period ended March 31, 2005 is prepared and contains disclosure of material changes occurring up to and including April 29, 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 Edmonton, 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.

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



Liquidity and Capital Resources

The cash flow generated from operations, excluding non-cash working capital items, was \$4.5 million for the second quarter and \$9.3 million year-to date for fiscal 2005. Strong sales and gross margin in both the first and second quarter contributed to this result. This compared favorably to the previous year, where there was a use of capital of \$242 thousand for the same quarter and \$52 thousand generated year to date. On a year-to-date basis cash flow from operations in 2005, excluding non-cash working capital items was \$0.10 per share or \$0.09 cents fully diluted (2004 – use of cash \$0.00 per share for basic and diluted earnings).

Comparative liquidity (in thousands)	Quarter 2 Mar 31, 2005	Quarter 2 Mar 31, 2004	Fiscal Year Sep 30, 2004
Bank indebtedness	0	17	181
Working capital	12,626	1,389	1,924
Long-term liabilities	104	54	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 \$6.6 million as of March 31st, 2005.

Major cash flow components (in thousands)	Quarter 2 Mar 31, 2005	Quarter 2 Mar 31, 2004	Fiscal year YTD Mar 31, ,2005	Fiscal year Sep 30,2004	Fiscal Year Sep 30, 2003
Operating activities	4,410	(447)	6,561	(2,513)	(1,214)
Financing activities	1,231	12	367	2,539	1,391
Investing activities	(32)	(34)	(181)	(190)	(205)

Cash provided from operating activities during the second quarter of fiscal year 2005 was \$4.4 million (use of \$0.4 million in the same quarter fiscal year 2004). The net change of \$4.9 million can be attributed to the substantial improvement in profitability in the quarter (\$3.1 million in fiscal year 2005, \$0.3 million loss in same quarter in fiscal year 2004) and non-cash stock compensation expense of \$1.3 million (\$4 thousand in fiscal year 2004). Net changes in non-cash working capital items used cash of \$78 thousand as compared to \$206 thousand used in the second quarter of the prior year. As a result, net cash provided in operating activities in the second quarter was \$4.4 million in fiscal year 2005 versus a net use of cash (\$447 thousand) 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. Accounts receivable decreased \$2.2 million from the first quarter.

The Company's financing activities in the second quarter of fiscal 2005 provided \$1.2 million (\$12 thousand in fiscal 2004) of cash during the quarter. The financing activity was primarily composed of a \$1.2 million issuance of capital stock through the exercise of stock options and warrants (5,734,394 common shares at an average of \$0.21 per share).



The Company's investing activities in the second quarter used \$32 thousand (\$34 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 as the Company continued 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 for the remainder of fiscal year 2005. The Company's working capital and capital expenditure requirements depend upon numerous factors including the success of new product introductions, market development programs and long term continuing product research and development activities. In the future, the Company may develop requirements for additional capital to fund operations, capital asset 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.

As a result, adjustment of \$1.86 million was applied to opening deficit in the first quarter of the fiscal year 2005. During the second quarter of the fiscal year of 2005, as required per CICA's new standard, a non-cash expense of \$1.3 million (\$1.8 million year-to-date) was recognized to reflect the fair value of vested stock options.

On March 3, 2005, the Board granted 4,519,000 options for common shares exercisable at a fair market value of \$2.84 per share. The value of options issued was \$11.1 million or \$2.46 per option. In fiscal year 2005, an additional compensation expense of \$1.3 million will be incurred, prorated as options vest at 20% per year. This cost is a non-cash expense.

Outstanding Shares

As at April 22, 2005;

- Number of issued and outstanding common Class A shares 99,579,625
- Number of outstanding, unexercised stock options 17,674,020
(Exercise price ranges from \$0.10 to \$2.84 per share with expiration dates ranging from 2005 to 2010)

Results of Operations (Historical and Current)

Revenue

Second quarter of fiscal year 2005 was another record quarter for CVT. The Company reported net sales of \$10.5 million, exceeding the \$1.2 million in the same quarter of fiscal year 2004 and the \$6.4 million for the entire fiscal year 2004. Year-to-date net sales are \$21.8 million. 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 program resulting from mainstream media coverage. The number of retail doors through which product is distributed has increased to 6,000. The Company continues to receive 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 continued featuring national celebrity - Don Cherry, including radio, TV, newspaper and magazine ads along with extensive sponsorship arrangements within the athletic world.

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 804% increase in sales in the second quarter of fiscal year 2005 over the same quarter in fiscal year 2004 and the record quarterly profit of \$3.1 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 is in 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 second quarter gross margin improved from 64% in fiscal year 2004 to 76% in fiscal year 2005 (the year-to-date average for fiscal year 2005 is 73 compared to 66% in 2004). This was accomplished through an 804% increase in quarter-over-quarter sales and 648% increase in year-to-date sales, an increase in economies of scale, improved procurement and rigorous cost management.

The Company continues to certify 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 domestic and international supply chain for ChemBioPrint products has been significantly expanded to meet increasing demand. The 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 5% improvement in gross margins between the first and second quarters.

Operating Expenses

The second quarter administrative costs-to-sales percentage has decreased from 90% to 47% on a quarter-over-quarter basis with increased sales, and from 68% to 40% year-to-date. Operating expenses for the second quarter of fiscal year 2005 were \$4.9 million as compared to \$1.0 million in the prior year.

This \$3.9 million (370%) increase over the same quarter from the prior year is comprised of the following:

- Sales and marketing expenses increased by \$1.4 million. These expenditures were consistent with sales and marketing objectives for the quarter and year.
- Salaries and benefits and stock compensation expense increased \$1.5 million. The non-cash compensation expense of \$1.3 million was recorded in compliance to the CICA Handbook rule. The vesting of stock options from achieving \$20 million in sales caused the recognition of the balance of stock compensation expense for options based on the vesting grid. This expense is expected to continue with additional options issued March 3, 2005 which are based on vesting over 5 years. The increase in wages reflects increases in the number of employees.



- Quality control, clinical research, and development expenses for the second quarter increased by \$0.5 million over the same quarter of last year. Quality control costs increased with the increase in sales, but at a lower rate of 6% (14% in second quarter of fiscal year 2004) 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.
- Public and investor relation costs increased by \$0.1 million with increased costs in preparing the annual report and hosting the Annual General Meeting. CVT now has in excess of 10,000 shareholders.
- The company commenced amortization of deferred development costs at \$0.1 million per quarter.
- The balance of \$0.3 million was incurred in various operating expenditures and activities.

Management is developing plans to build CVT's inventory to meet the growing demand anticipated in the fall and will continue to develop sales of COLD-fX® and REMEMBER-fX® through spring and summer.

Summary of quarterly results				
<i>(in thousands)</i>				
Fiscal year 2005	1st Quarter Dec 31, 2004	2nd Quarter Mar 31, 2005	3rd Quarter Jun 30, 2005	4th Quarter Sep 30, 2005
Revenue	11,304	10,521		
Gross margin	8,001	7,997		
Gross margin %	70.8%	76.0%		
Net earnings (loss)	4,196	3,081		
Earnings (loss) per share – Basic	\$0.05	\$0.03		
Earnings (loss) per share – Diluted	\$0.04	\$0.03		
Total assets	13,819	17,762		
Total Liabilities	3,998	2,356		
Fiscal year 2004	1st Quarter Dec 31, 2003	2nd Quarter Mar 31, 2004	3rd Quarter Jun 30, 2004	4th Quarter Sep 30, 2004
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
Fiscal year 2003	1st Quarter Dec 31, 2002	2nd Quarter Mar 31, 2003	3rd Quarter Jun 30, 2003	4th Quarter Sep 30, 2003
Revenue	474	498	269	302
Gross margin	298	312	182	119
Gross margin %	62.9%	62.7%	67.7%	39.4%
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 April 22, 2005, 53,521 options were exercised for total cash proceeds of \$38,000.

On April 18, 2005, the Company's classification on the Venture Exchange changed from Tier 2 to Tier 1.



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 public awareness programs. Future success will be dependent on these 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 2 of fiscal 2005 was another banner quarter for sales and profitability for CVT. The Management Team and Employees have achieved significant progress in commitments to enhancing the Company's profitability in 2005 by maximizing the revenues, increasing product awareness, expanding distribution of all products while maintaining a strong cost management program. Management will continue its targeted marketing and commercialization approach of its products, development of the organization plan for profitable growth through increased staffing, sales and marketing, 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 in Eastern Canada, Quebec and the Maritimes and to develop strategies to expedite its international growth objectives. Management 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's scientists will continue to strengthen the scientific claims for its products through clinical trials. Management also 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 preparing plans to build inventory to meet growing demand anticipated in the fall. Typically, sales will lessen in the summer. Management will focus on educating consumers on the year round preventative use of COLD-fX® and continue to promote REMEMBER-fX®.

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

