

MANAGEMENT DISCUSSION AND ANALYSIS

CV TECHNOLOGIES INC.

Fiscal Year Ended

September 30, 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, which it relies upon, are reasonably based on information available at the time that these estimates and assumptions were made. These estimates and assumptions have been reviewed 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, 2005 and accompanying notes. All amounts are expressed in Canadian dollars.

This discussion and analysis for the year ended September 30, 2005 is prepared and contains disclosure of material changes occurring up to and including November 25, 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; regulatory changes 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 health sciences and technology company, founded in 1992 and headquartered in Edmonton, Alberta, 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. In 2003, CVT shifted from research and development to product commercialization. Using the ChemBioPrint technology, the Company's scientists are able to precisely identify the chemical profile and biological activity of natural products. The process involves a combination of chemical and pharmacological fingerprinting ensuring the creation and scientific substantiation of its natural health products are safe, effective and consistent. CVT is committed to using a pharmaceutical model (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. A U.S. FDA regulated Phase II Clinical Trial showed COLD-fX® reduces the risk of getting a cold or flu by 89%. 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® Strengthens the body's immune system
- REMEMBER-fX® Memory enhancement, mental alertness
- CELL-fX® Helps relieve symptoms of bone and joint pain and formation of connective tissue
- PRESSURE-fX® Helps normalize blood pressure and improve cardiovascular function
- AD-fX® Helps to enhance focus, attention, and cognition
- MENTA-fX® Helps normalize mood

Vision and Strategy

Over the next five years, CVT will endeavor to become the leader in preventative health care as evidenced by the following:

- Further planning and development of the Canadian and international markets.
- Further increase in product and brand recognition.
- Research and development of a healthy pipeline of products.
- Launch of collaborative clinical trials and research and development to strengthen the science behind its products.

CVT will accomplish these goals through rigorous research and development, product awareness through marketing and public relations, promotion and emphasis of the science behind CVT products, collaborating with retail chains and distributors/wholesalers, commercialization of new products, cost management and profitability, satisfied customers, and strong product science to meet the highest levels of regulatory approval.



Key Performance Indicators

Performance indicators of growth include:

- Scientifically proven products,
- Regulatory approvals,
- Consumer acceptance,
- Unique, proprietary and patentable technologies and intellectual property such as ChemBioPrint,
- Effective processes in building product awareness, brand management and strategic planning,
- Ability to manage costs of production and supply chain, and
- Capacity and ability to develop new science-based products.

Specific issues that CV Technologies must manage include, but are not limited, to the following:

- Regulatory approval of products, domestically and internationally,
- Unplanned production downtime,
- Shortages in raw materials and corresponding fluctuations in the cost of materials,
- Potential product recalls.

Results of Operations (Historical and Current)Highlights

- **CV Technologies Inc. achieved record net sales of \$31.9 million (\$6.4 million in 2004).**
- **COLD-fX® was the number one selling item in the category of cold remedies, natural supplements and vitamins for the 52 – week period ending April 16, 2005 as report by ACNielson.**
- **Increased distribution.**
- **Launch of CELL-fX®.**

Profitability

Net earnings were \$10.1 million (\$151 thousand - 2004). This achievement was the result of increased sales, market expansion, consumer satisfaction, improvements in the cost of goods sold and a recovery in income taxes.

Revenue

The Company reported net sales of \$31.9 million for the fiscal year (\$6.4 million - 2004). This accomplishment was achieved through an increase in the volume of sales of CVT's lead product – COLD-fX®, through partnerships with major national Canadian retailers, an increase in sales of REMEMBER-fX® and CELL-fX®, significant product awareness programs resulting from mainstream media coverage and education of healthcare professionals, and continued focus on marketing and advertising of CVT's lead products. The Company continued to receive 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 enhanced the Company's presence in the marketplace, while expanding the distribution channels. The number of retail doors through which product is distributed exceeds 6,000.

COLD-fX® was ranked the number one selling cold remedy in Canada over the latest 52 - week period ending April 16, 2005, including the past cold and flu season. (Client calculation based in part on Dollar Sales Data reported by ACNielsen, through its MarketTrack Drug Service, for Cold Remedies, Natural Supplements & Vitamins Category for the 52-week period ending April 16, 2005.) In addition, COLD-fX® was the number one selling item in retail drug stores across Canada in the category group of cold remedies, natural supplements and vitamins. These are CVT's primary distribution channel.

A comprehensive advertising and merchandizing campaign continued featuring national celebrities - Don Cherry and Matt Dunnigan, including radio, TV, newspaper and magazine ads along with extensive sponsorship arrangements within the athletic world.

During the past year, the Company entered into CELL-fX® partnerships with the Edmonton Eskimos, Calgary Stampeders, BC Lions and Toronto Argonauts, and a partnership deal with the Montreal Canadiens in support of COLD-fX® as the Company expands into Quebec.

Management's objectives to achieve significant sales, distribution and expanded operational growth in fiscal year 2005 were met and contributed to the 398% increase in sales (316% - 2004).

Research and development

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

The newly created Natural Health Products Directorate of Health Canada has given regulatory approval and issued CVT a Natural Product Number (NPN) for CELL-fX®, a product for the relief of bone and joint pain and an aid the formation of connective tissue.

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.

The Company successfully completed a large-scale clinical trial with COLD-fX®. The results were published in the Canadian Medical Association Journal in October 2005.

The Company will continue to invest in product development and in strengthening the science of its products with expansion of its research and development staff.

Gross margin

The Company's gross margin improved to 75.7% (70.9% - 2004). This was accomplished through a 398% increase in sales and improved operations in the areas of procurement, and rigorous cost management.



The Company continued to certify its third party manufacturers and ensure compliance with Good Manufacturing Practices (GMP) established by Health Canada. The capacity of the Company's supply chain for ChemBioPrint products has been significantly strengthened to meet increasing demand. The continuing strategy to outsource production and logistical activities aims to further reduce costs, and maximize production capacity and flexibility. These strategies have contributed to an increment of 4.8% in gross margins.

Operating expenses

CVT continued to invest in its development of the sales, organization, research and development and brand building activities. Operating expenses for the year were \$15.7 million as compared to \$4.4 million in the prior year. Operating expenses as a percent of sales decreased from 69% in 2004 to 49% in 2005.

This \$11.3 million (253%) increase over the prior year was comprised of the following:

- Salaries, benefits, and stock compensation expense increased \$3.7 million. The non-cash compensation expense of \$2.9 million was recorded in compliance with Canadian Generally Accepted Accounting Principles. The full vesting of stock options in Quarter 2 from achieving \$20 million in sales resulted in the recognition of stock compensation expense for options, based on the vesting grid. Additional options were issued March 3, 2005 and vest over 5 years. The \$0.8 million increase in wages reflected increases in the number of employees. In the fourth quarter, the Company added additional resources in the areas of quality assurance and control, regulatory and research and development.
- Advertising and marketing expenses increased by \$3.9 million. These expenditures were consistent with advertising and marketing objectives for the year. As a percentage of sales, these costs reduced from 20% to 16%. Brand building efforts for COLD-fX®, REMEMBER-fX® and CELL-fX®, media investment and promotional activities during the year have been instrumental in developing and sustaining the business. COLD-fX® ranked as the top selling inventory item within the cough and cold category.

The summer season is a critical period to plan and invest accordingly to prepare for the upcoming season and sustain the momentum. This strategy contributed to quarter over quarter sales growth of its products. In August, CELL-fX® was launched in the marketplace.

- Quality control, clinical research, and development expenses for the year increased by \$1.2 million. Expenditures have been increasing with sales but at a lower rate of 6% (10% in 2004) because 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.
- Administration, occupancy and insurance costs increased by \$0.7 million. These costs were related to increased number of employees and expanded sales and operations, the opening of a Toronto office and an increase in laboratory space in the fourth quarter. Expenditures in fourth quarter were \$371 thousand.
- Expenditures for resources of contractors and professionals increased \$0.8 million. As a percentage of sales, the economics of scale the percentage of sales declined from 7% to 4%.
- The Company amortized \$0.3 million of deferred development costs (\$0.1 million per quarter commencing in the second quarter).
- The balance of \$0.8 million was incurred in various other operating activities. In the fourth quarter, the Company incurred a net cost of \$151 thousand in settlement of the Calgary lease on closing



the sales office as the team was relocated to Toronto, and \$138 thousand was spent in reacquiring its licenses through acquiring ChemBioPrint Asia Limited. An additional \$254 thousand was incurred in business development and communications activities.

Income taxes

Future income tax assets and liabilities are recognized for temporary timing differences between the carrying amount of the balance sheet items and their corresponding tax values as well for the benefits of losses available to be carried forward to future tax years that are likely to be realized. The net portion of both current and non-current taxes assets was \$1.6 million.

Expected income taxes expense of \$2.9 million (2004 - \$52,203) was eliminated by a \$0.4 million (\$0.2 million – 2004) SR&ED adjustments and deductions arising from previous years for SR&ED (\$1.2 million), non-capital losses (\$3.6 million) and other items. As a result, CVT recognized a \$1.6 million tax recovery this year based on the likelihood of recoverability.

Quarterly Results

Summary of quarterly results

(in thousands)

Fiscal year 2005	1 st Quarter Dec 31, 2004	2 nd Quarter Mar 31, 2005	3 rd Quarter Jun 30, 2005	4 th Quarter Sep 30, 2005	Year to date Sept 30, 2005
Revenue	11,304	10,521	2,836	7,189	31,850
Gross margin	8,355	8,352	2,250	5,162	24,119
Gross margin %	73.9%	79.4%	79.3%	71.8%	75.7%
Net earnings (loss)	4,196	3,081	(466)	3,282	10,093
Earnings (loss) per share – Basic	\$0.05	\$0.03	(\$0.00)	\$0.02	\$0.10
Earnings (loss) per share – Diluted	\$0.04	\$0.03	(\$0.00)	\$0.02	\$0.09
Total assets	13,819	17,762	17,909	23,717	23,717
Total Liabilities	4,020	2,377	2,182	3,876	3,876
Fiscal year 2004	1 st Quarter Dec 31, 2003	2 nd Quarter Mar 31, 2004	3 rd Quarter Jun 30, 2004	4 th Quarter Sep 30, 2004	Year to date Sept 30, 2004
Revenue	1,756	1,164	1,227	2,270	6,417
Gross margin	1,299	814	890	1,544	4,547
Gross margin %	74.0%	69.9%	72.5%	68.0%	70.9%
Net earnings (loss)	266	(269)	(55)	209	151
Earnings (loss) per share – Basic	\$0.00	(\$0.00)	(\$0.00)	\$0.00	\$0.00
Earnings (loss) per share – Diluted	\$0.00	(\$0.00)	(\$0.00)	\$0.00	\$0.00
Total assets	6,095	5,614	5,497	7,500	7,500
Total Liabilities	2,126	1,897	1,503	2,846	2,846
Fiscal year 2003	1 st Quarter Dec 31, 2002	2 nd Quarter Mar 31, 2003	3 rd Quarter Jun 30, 2003	4 th Quarter Sep 30, 2003	Year to date Sept 30, 2003
Revenue	474	498	269	302	1,543
Gross margin	298	312	182	119	911
Gross margin %	62.9%	62.7%	67.7%	39.4%	59.0%
Net earnings (loss)	(199)	(185)	(477)	(935)	(1,796)
Loss per share – Basic	(\$0.00)	(\$0.00)	(\$0.00)	(\$0.00)	(\$0.03)
Loss per share – Diluted	(\$0.00)	(\$0.00)	(\$0.00)	(\$0.00)	(\$0.03)
Total assets	4,704	4,590	4,712	3,452	3,452
Total Liabilities	1,318	1,292	1,319	596	596

Certain prior period/year figures have been reclassified to conform to the current year's presentations.

Fourth quarter earnings were \$3.3 million compared to \$209 thousand in 2004, an increase of \$3.1 million (1,483%). Revenue from product sales, for the fourth quarter ended September 30, 2005, increased to \$7.2 million from \$2.8 million in the third quarter. Sales growth of \$4.4 million from the third quarter was attributable to increased orders with the approaching cough and cold season and the launch of CELL-fX®. Fourth quarter gross margin improved to 71.8% from 68.0% in 2004).

A substantial increase in sales was achieved from the fourth quarter of 2004 into the first quarter of 2005. This increase is attributed to the rapid acceptance of COLD-fX® product, and a focused program to educate health care professionals.



Operating expenses remained consistent with prior quarters with the exception of office and occupancy costs. In early July, the Calgary sales office was closed and Toronto sales office opened. A settlement of the Calgary lease cost \$151 thousand. This was a result of a planned strategy to strengthen presence in the central Canadian marketplace.

The opening of a sales and marketing office in Toronto represents a commitment to develop Canadian business and to expand markets beyond CVT's strong Alberta base and to service significant growth achieved in Ontario and expected in Quebec. CVT will focus on fully developing the Canadian market and continues to explore its options for expanding into international markets.

Management finished the year with sufficient inventory to meet the growing demand for COLD-fX®, REMEMBER-fX® and CELL-fX® through the fall. COLD-fX® inventories were equivalent to \$30 million in sales. The Company has cash resources and bank operating lines in preparation for the winter.

Liquidity and capital resources

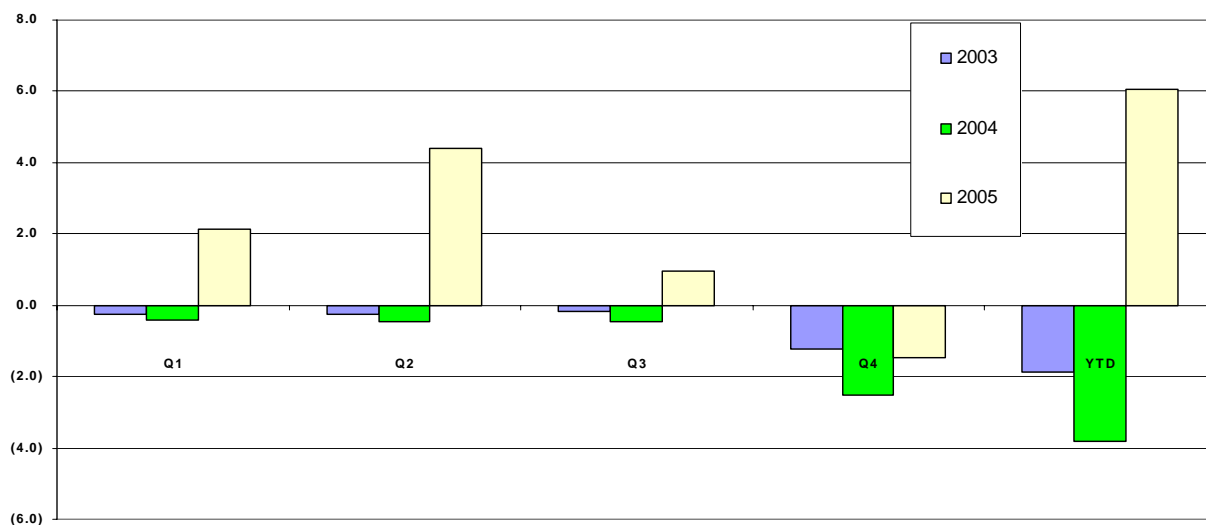
The cash flow generated from operations, excluding non-cash working capital items, was \$12.2 million for the year (\$0.3 million - 2004). Strong sales and gross margin improvement contributed to this result. Cash flow from operations excluding non-cash working capital items (non-GAAP metric) was \$0.125 per share or \$0.110 cents fully diluted (2004 - \$ 0.004 for basic and diluted cash flows).

Comparative liquidity (in thousands)	2005	2004	2003
Bank indebtedness	0	181	17
Working capital	16,928	1,924	212
Long-term liabilities	70	108	30

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 \$7.5 million based on receivables, inventory, and tax credits. On June 14 2005, CVT obtained an increase in its bank revolving demand operating facility from \$2.5 million to \$7.5 million in preparation for the fall and winter cold and flu season. The Company has not utilized its credit facility as shown in the working capital summary above. The Company was in a positive cash position of \$6.0 million as of September 30, 2005. The Company enjoys a significant improvement in working capital from the same quarter in the previous year. Cash flow from operations including working capital items is illustrated in the following chart.



Cash Flow From Operations (millions)



The decrease in cash flow from operations resulted from an increase in receivables resulting from an increase in sales in the fourth quarter, and increase inventories in preparation for the fall. This was offset by an increase in payables.

Major cash flow components (in thousands)	2005	2004	2003
Operating activities	6,124	(2,513)	(1,214)
Financing activities	855	2,539	1,391
Investing activities	(846)	(190)	(205)

Cash provided from operating activities during the fiscal year 2005 was \$6.1 million. The improvement of \$8.6 million was primarily attributed to an increase in profitability of \$9.9 million, a \$1.9 million difference increase in accounts receivables, a \$3.3 million difference in increase in inventory, \$2.9 million in non-cash stock compensation expense (\$0.6 million during the fourth quarter) and an offsetting \$1.5 million differences in an increase of accounts payable and \$1.6 million for non-cash future income tax recovery. Net changes in non-cash working capital items used cash of \$6.1 million compared to \$2.8 million used in the prior year. Net cash used in operating activities in the fourth quarter was \$1.4 million in fiscal year 2005. The largest component of this quarterly change related to increase in sales and related increase accounts receivable and the building of inventory.

The Company's financing activities in fiscal 2005 used \$1.3 million to repay its revolving loan carried over from the previous year. The financing activity involved the issuance of \$2.2 million in shares (9,599,970 common shares at an average of \$0.224). In 2004, \$1.3 million in shares were issued. In the fourth quarter, 721,000 shares were issued for \$263 thousand (average value of \$0.365 per share). Shares were issued on the exercise of options and warrants.



The Company's investing activities in fiscal 2005 used \$846 thousand (\$190 thousand in fiscal year 2004). Investing activities primarily consisted of computer and laboratory equipment purchases and the acquisition of patents and trademarks in support of its business strategy. Expenditures for patents and registered trademarks were incurred in the protection and development of its intellectual property.

Historically, the Company financed its operations through a combination of private and public sales of shares and the use of a credit facility with a chartered bank. During the year, the Company issued common shares through exercise of options and warrants resulting in a cash injection totaling \$2.2 million providing the necessary additional funds required for funds.

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 fiscal year 2006. The Company's working capital and capital expenditure requirements depend upon numerous factors including the success of product introductions, market development programs and long term focus on 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.

Aggregate contractual obligations and off-balance sheet financing

The Company has entered into operating and capital lease agreements in the ordinary course of its business. In addition, the Company has entered into various agreements for financial assistance in research and development activities and clinical studies. The commitments relating to these agreements payable over the next five years is as follows:

Contractual obligations
(in thousands)

Leases	Total	2006	2007	2008	2009	2010
Property leases ¹	515	190	86	102	82	55
Equipment leases	58	31	23	2	2	0
Total lease obligations	573	221	109	104	84	55
Research and development assistance	Remaining Obligation	Total assistance available	Total assistance received	Max funds to be paid	Funds repaid to date	Max remaining term
National Research Council ²	105	495	495	742	637	7 years
AVAC ³	356	525	517	1,000	644	7 years
Total research and development assistance obligations	461	1,020	1,012	1,742	1,281	

1. 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.
2. 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.
3. 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 million. The Company is not obliged to repay any of the assistance received should the Company have no future revenues on product sales.

Deferred license revenue

Deferred license revenue represents licensing fees recognized from the formation Vet Ex, a joint venture with Centaur Pharmaceuticals, and is deferred until there is a culmination of the earnings process.



Majority interest

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.

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 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 the opening deficit in the first quarter of the fiscal year 2005. During the fiscal year of 2005, as required by this new standard, a non-cash expense of \$2.9 million (\$0.6 million for the fourth quarter) was recognized to reflect the fair value of stock options granted.

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 and which vest at 20% per year. The value of options granted was \$2.46 per option. In fiscal year 2005, an additional compensation expense of \$1.3 million was recorded.

On July 18, 2005, the Board granted 250,000 options for common shares exercisable at a fair market value of \$2.62 per share and which vest at 20% per year. The value of options granted was \$2.24 per option. In fiscal year 2005, an additional compensation expense of \$23 thousand was recorded.

Outstanding shares

As at November 25, 2005;

- Number of issued and outstanding common Class A shares 101,188,171
- Number of outstanding, unexercised stock options 16,168,770
(Exercise price ranges from \$0.10 to \$2.84 per share with expiration dates ranging from 2005 to 2010. The number of options exercisable is 11,442,770)

Acquisitions

During the fourth quarter, 2005, the Company purchased 902,611 common shares in its subsidiary, ChemBioPrint Asia Limited ("CBP Asia"), for a total cash consideration of \$143,837. CVT had a non-controlling interest of 42.6% in CBP Asia, a company which holds rights to develop, distribute and sell COLD-fX® and other products in Asia. These rights are of significant strategic importance as CVT now owns Asian rights to current and future ChemBioPrint products. The share purchase resulted in the Company having 99.1% ownership CBP Asia.

Internal Controls in Financial Reporting

In August 2005, CVT established an Enterprise Risk Management Committee (a subcommittee of the Audit Committee) to oversee a project to complete a risk assessment and review of its internal controls over financial reporting to meet the requirements under MI 52-109. This project has been established with full support of the Board and Management. This committee is sponsored by the CEO and CFO, and chaired by the Audit Committee Chairperson. The Company's auditors, Grant Thornton, participate in the committee and review documentation as completed. Regular updates are made to the Audit Committee and Board. A project manager has been assigned responsibility and a comprehensive project plan has been developed. Progress was made completing the design and initial evaluation of controls over



disclosure. In 2006, the Company will continue to design, implement and test controls in the significant financial reporting cycles. Design is expected to be completed by the end of 2006, with testing and refinement continuing into 2007.

Management Changes during the Year

Gordon Brown was appointed Chief Financial Officer on January 1, 2005.

Dr. Lei Ling was appointed Vice President, Product Development on July 19, 2005 and is a member of the Executive Management Team.

Subsequent Events

The Canadian Medical Association Journal, regarded as one of the five top general medical journals in the world, published on October 25, 2005 a landmark double-blind, placebo-controlled study on the prevention and relief of upper respiratory infections. The clinical trial was conducted on the anti-cold, anti-flu remedy, COLD-fX® by Edmonton's Medical Officer of Health and a senior Canadian researcher who called the results 'statistically highly significant'. The trial results show that COLD-fX® reduced the incidence and frequency of recurrent colds by more than half. It also cut the duration of colds and significantly reduced their severity.

The number of upper respiratory infections in each subject was significantly reduced by 25% in the COLD-fX® group during the 4-month treatment period. Even more impressive however, was the finding that recurrent infections were reduced by 56% (10.0% in the COLD-fX® group v. 22.8% in the placebo group, an absolute difference of 12.8%). COLD-fX® treatment also had a significant effect in reducing the total symptom score and the duration of infections. The incidence of adverse events was low and the prevalence was found to be similar between the two groups.

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 will 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.

During 2005, four (2004 – five) major customers accounted for \$20.5 million or 64.5% (2004 - \$4.1 million or 64.4%) of product sales. As at year-end, two customers represented 37.3% and 26.1% (2004 – 42.2% and 15.2%, respectively) of total accounts receivable.

Financial Risks and Risk ManagementForeign exchange

The Company is exposed to market risk related to changes in foreign currency. This could adversely affect the value of the Company's current assets and liabilities as well as impact revenues and profitability. The Company's expenditures on goods and services are primarily in Canadian dollars and its revenues are primarily in Canadian dollars. The Company has not entered into any forward currency



contracts or other financial derivatives as of September 30, 2005 to hedge foreign exchange risk and therefore are subject to foreign currency transaction and translation gains and losses.

Credit

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 practices that include regular monitoring of the debtor's payment history and performance. The customer base is comprised of well established, reliable retailers and wholesalers.

Interest rate risk

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

Regulatory environment

CVT is subject to extensive laws and regulations in respect of product quality, processing, labeling, and testing of its products. Changes to these laws and regulation could have a significant impact. There can be no assurance that CVT will be able to cost-effectively comply with future laws and regulations. CVT does submit to the guidelines set by regulatory agencies and "Good Manufacturing Practices". The Company also has established policies and procedures to mitigate risk of non-compliance.

Outlook

Fiscal year 2005 was significant year for CVT. Sales and cash flows improved significantly. CVT was able to maintain cash flows during the seasonal contraction of sales for cough and flu products in the third quarter. The Management Team and employees have achieved significant progress in commitments to enhancing the Company's sales and profitability in 2005 through increasing product awareness, expanding distribution of all products and a solid cost management program. Management will continue to focus on marketing, commercialization of its products, and development of the organizational infrastructure. The Company expects to increase staffing in sales and marketing, distribution and research and development. Management will work to enhance demand for REMEMBER-fX® and CELL-fX®, and launch a fourth ChemBioPrint product.

In 2006, CVT will continue to improve consumer awareness and the education of health care professionals in developing its Canadian business, develop, and implement strategies to facilitate international growth objectives. Effective brand management, customer centric programs, further marketing efforts and mainstream media coverage will increase consumer awareness. Excellence in cost management and expansion of its supply chain will strengthen operational activities. CVT's R&D capacity will be expanded to strengthen the scientific claims for its products through clinical trials and develop its product pipeline. With stronger consumer and retail relationships, management is committed to making CVT's products, COLD-fX®, REMEMBER-fX® and CELL-fX®, strong performers within their categories. Management will focus on educating consumers on the year round preventative use of COLD-fX® and promote REMEMBER-fX® and CELL-fX®. Preparations are well underway to ensure sales momentum carries into 2007 and beyond.

Management believes 2006 will continue to prove that CVT is a leader in the discovery, development 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.

