

**CV Technologies Inc.  
Interim Consolidated  
Financial Statements**

Three month period ended December 31, 2005

# CV Technologies Inc.

## Consolidated Statements of Earnings

For the three month period ended December 31

(Unaudited)

	2005	2004
Product sales	\$ 18,940,274	\$ 11,303,653
Cost of goods sold	5,525,861	2,948,879
Gross margin (2005 - 70.8%, 2004 - 73.9%)	13,414,413	8,354,774
Operating expenses		
Advertising and marketing	2,582,285	2,059,359
Research and development	1,103,978	469,846
Salaries and employee benefits	614,278	354,826
Stock-based compensation	577,620	538,199
Consulting, contracting and professional fees	562,717	398,300
Administration, occupancy and insurance	323,392	244,537
Public relations and business promotion	91,407	62,714
Amortization of deferred development costs	90,400	-
Amortization of property and equipment and intangible assets	64,141	33,784
Interest and bank charges	6,997	10,484
Bad debts (recovery)	(16,295)	-
	6,000,920	4,172,049
Earnings before other revenue, non-controlling interest and income taxes	7,413,493	4,182,725
Other revenue		
Interest revenue	47,386	-
Other revenue	25,195	32
(Loss) gain on foreign exchange	(23,314)	11,129
	49,267	11,161
Earnings before non-controlling interest and income taxes	7,462,760	4,193,886
Non-controlling interest share of subsidiary loss	-	2,206
Earnings before income taxes	7,462,760	4,196,092
Income taxes		
Current (Note 15)	1,908,300	-
Future (Note 15)	1,138,724	-
	3,047,024	-
Net earnings	\$ 4,415,736	\$ 4,196,092

See accompanying notes to the consolidated financial statements

# CV Technologies Inc.

## Consolidated Statements of Deficit

For the three month period ended December 31

(Unaudited)

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	2005	2004
Deficit, beginning of period	\$ (6,017,395)	\$ (14,250,917)
Change in accounting policy (Note 11)	-	(1,859,716)
As restated	(6,017,395)	(16,110,633)
Net earnings	4,415,736	4,196,092
Deficit, end of period	\$ (1,601,659)	\$ (11,914,541)

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Earnings per share (Note 12)

Basic earnings per share	\$ 0.04	\$ 0.05
Diluted earnings per share	\$ 0.04	\$ 0.04

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See accompanying notes to the consolidated financial statements

## CV Technologies Inc. Consolidated Balance Sheets

	December 31, 2005 (Unaudited)	September 30, 2005 (Audited)
<b>Assets</b>		
Current		
Cash and cash equivalents	\$ 17,378,024	\$ 5,951,981
Accounts receivable	4,242,774	6,293,660
Inventory	6,696,522	7,636,637
Prepaid expenses and deposits	1,042,068	49,977
Future income taxes (Note 15)	<u>12,865</u>	<u>802,068</u>
	29,372,253	20,734,323
Patents and registered trademarks (Note 4)	884,888	876,704
Property and equipment (Note 5)	615,189	519,763
Deferred development costs (Note 2)	1,446,405	1,536,805
Future income taxes (Note 15)	<u>-</u>	<u>49,026</u>
	<u>\$ 32,318,735</u>	<u>\$ 23,716,621</u>
<b>Liabilities</b>		
Current		
Accounts payable and accruals	\$ 5,741,178	\$ 3,778,378
Current income taxes payable	1,202,023	-
Current portion of obligations under capital leases (Note 7)	26,997	25,123
Current portion of lease inducements	<u>3,923</u>	<u>3,095</u>
	6,974,121	3,806,596
Future income tax liability (Note 15)	300,495	-
Deferred revenue (Note 8)	150,000	30,000
Obligations under capital leases (Note 7)	20,119	27,939
Lease inducements	<u>13,386</u>	<u>11,668</u>
	<u>7,458,121</u>	<u>3,876,203</u>
Non-controlling interest (Note 9)	<u>-</u>	<u>-</u>
<b>Shareholders' Equity</b>		
Share capital (Note 10)	21,011,585	20,984,745
Contributed surplus (Note 11)	5,450,688	4,873,068
Deficit	<u>(1,601,659)</u>	<u>(6,017,395)</u>
	<u>24,860,614</u>	<u>19,840,418</u>
	<u>\$ 32,318,735</u>	<u>\$ 23,716,621</u>
Commitments (Note 17)		

See accompanying notes to the consolidated financial statements

# CV Technologies Inc.

## Consolidated Statements of Cash Flows

For the three month period ended December 31

(Unaudited)

	2005	2004
<b>Operating</b>		
Net earnings	\$ 4,415,736	\$ 4,196,092
Items not affecting cash		
Future income taxes	1,138,724	-
Amortization	154,541	33,784
Non-controlling interest share of loss	-	(2,206)
Stock-based compensation	577,620	538,199
	6,286,621	4,765,869
Change in non-cash operating working capital		
Accounts receivable	2,050,886	(5,272,763)
Inventory	940,115	(58,079)
Prepaid expenses and deposits	(992,091)	82,989
Accounts payable and accruals	1,962,800	2,635,117
Current income taxes payable	1,202,023	-
Lease inducements	2,546	(2,753)
Deferred revenue	120,000	-
	11,572,900	2,150,380
<b>Financing</b>		
Repayment of demand loan	-	(1,275,000)
Repayment of obligations under capital leases	(5,946)	(4,189)
Issuance of share capital	26,840	410,618
	20,894	(868,571)
<b>Investing</b>		
Purchase of property and equipment	(141,387)	(122,936)
Purchase of patents and registered trademarks	(26,364)	(21,780)
	(167,751)	(144,716)
Increase in cash and cash equivalents	11,426,043	1,137,093
Cash and cash equivalents (bank indebtedness)		
Beginning of period	5,951,981	(180,970)
End of period	\$ 17,378,024	\$ 956,123

Supplemental cash flow information (Note 13)

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# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

For the three month period ended December 31, 2005  
(Unaudited)

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### 1. Nature of operations

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

### 2. Summary of significant accounting policies

The unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP), using the same accounting policies as the audited consolidated financial statements for the year ended September 30, 2005. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended September 30, 2005

#### Consolidation of variable interest entities (VIEs)

The CICA has issued an accounting guideline effective October 1, 2005. The guideline provides a framework for identifying VIEs and requires the consolidation of VIEs if the Company is the primary beneficiary of the VIE. These requirements have no impact on the Company's consolidated financial statement presentation.

#### Principles of consolidation

The consolidated financial statements include the assets, liabilities, and result of operations, after the elimination of intercompany transactions and balances of the Company, 99.1% of its subsidiary (September 30, 2005 – 99.1%, December 31, 2004 – 57.4%) ChemBioPrint Asia Limited and its 60% joint venture interest in Vet Ex Inc.

#### Use of estimates

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

#### Translation of foreign currencies

##### a) Consolidation

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 for the subsidiary are translated using the average exchange rate for the year.

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# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

For the three month period ended December 31, 2005  
**(Unaudited)**

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

#### b) Transactions

Foreign currency denominated monetary accounts of the Company are translated at the period-end exchange rate. Non-monetary items are translated at the exchange rate in effect on the date in which the transaction occurred. Realized and unrealized gains and losses on translation are recognized in income (loss) in the year they arise.

#### Revenue recognition

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

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

Research and development assistance for clinical trials and technology development expenses is recognized as a reduction of expenses at the time that the related expenditure is incurred under the terms of the funding agreement. Certain portions of the assistance may be repayable dependent upon the ultimate success of the related products and will be charged to earnings at that time (Note 17a and b).

#### Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks, net of outstanding cheques.

#### Inventory

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

#### Patents and registered trademarks

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

#### Property and equipment

Property and equipment are recorded at cost and amortization is provided for using the following methods and rates:

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

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**CV Technologies Inc.**

**Notes to the Consolidated Financial Statements**

For the three month period ended December 31, 2005  
**(Unaudited)**

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

**Deferred development costs**

Development costs are capitalized for the technologies that are at a stage where potentially profitable markets have been identified and evaluated. The costs deferred are for clinical studies related to the development of Parathyroid Hypertensive Factor technology related to cardiovascular therapies. Amortization of development costs have commenced based on the start of commercial production of the product within the fiscal year ended September 30, 2005. The costs are amortized on a straight-line basis over a five year period based on recoverability of unamortized deferred development costs. During the three month period ended December 31, 2005, \$90,400 (2004 - \$nil) was expensed as amortization on deferred development costs.

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

**Research and development**

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

**Investment tax credits**

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

**Lease inducements**

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

**Financial instruments**

a) Fair value

The Company's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accruals, and obligations under capital leases. The fair values of all financial instruments approximate their carrying values.

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**CV Technologies Inc.**

**Notes to the Consolidated Financial Statements**

For the three month period ended December 31, 2005  
**(Unaudited)**

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

b) Interest rate risk

Demand loans and bank indebtedness are subject to interest rate cash flow risk as the required cash flow to service the debt will fluctuate as a result of the changing prime interest rate. It is management's opinion that foreign currency risk is not significant.

c) Foreign currency risk

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

d) Credit risk

The Company's exposure to credit risk relates to accounts receivable and arises from the possibility that a counterparty does not fulfil its obligations. This is minimized through a customer base predominantly comprised of well established, reliable retailers and wholesalers, a program of credit valuation of new customers, and limits on the amount of credit extended as deemed necessary. The Company performs continuous evaluation of its accounts receivable and records an allowance for doubtful accounts as required. It is management's opinion that there is no significant credit risk at December 31, 2005.

**Impairment of long-lived assets**

Impairment of non-monetary long-lived assets, including property and equipment, intangible assets and other assets subject to amortization, is recognized when the carrying amount of an asset may not be recoverable. Recoverability is determined by comparing the carrying amount of the asset to the undiscounted future cash flows expected from use and eventual disposition of the asset. In such situations, the asset is measured at its fair value and presented in the balance sheet at the lower of the fair value or carrying amount. This policy did not have any impact on the financial statements as at December 31, 2005.

**Earnings per share**

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

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**CV Technologies Inc.**

**Notes to the Consolidated Financial Statements**

For the three month period ended December 31, 2005  
**(Unaudited)**

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

**Income taxes**

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

**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 on or after October 31, 2002. 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 adjusted its opening retained earnings for \$1,859,716 in the fiscal year ended September 30, 2005 to reflect the cumulative effect of the change to prior periods.

Prior to October 1, 2004, the Company had chosen not to recognize the compensation expense when stock options were granted to employees, officers and directors at the prevailing market price and where there were no cash settlement features. As permitted by the CICA standard for stock-based compensation and other stock-based payments, the Company applied this change prospectively for new awards granted on or after October 1, 2002.

**3. Acquisition of ChemBioPrint Asia Limited**

On August 15, 2005, the Company acquired substantially all remaining issued and outstanding shares of ChemBioPrint Asia Limited for a total cash consideration of \$143,837. Of these shares, 0.9%, (\$401 of non-controlling interest) remain outstanding; the company which is the holder of these shares is no longer in existence. ChemBioPrint Asia Limited holds the licensing rights to use ChemBioPrint technology, to develop, distribute and sell COLD-fX® and other ChemBioPrint products in Asia. The purpose of this acquisition was to reacquire the licensing rights and discontinue operations. After elimination of intercompany balances, the following fair value was assigned to the assets and liabilities of ChemBioPrint Asia Limited:

Cash	\$ 5,229
Prepaid expense	1,084
Liabilities	2,455

The purchase of the remaining shares of ChemBioPrint Asia Limited resulted in acquisition costs of \$137,922.

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**CV Technologies Inc.**  
**Notes to the Consolidated Financial Statements**

For the three month period ended December 31, 2005  
**(Unaudited)**

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**4. Patents and registered trademarks**

<u>December 31, 2005</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Patents	\$ 1,238,099	\$ 469,534	\$ 768,565
Registered trademarks	<u>178,055</u>	<u>61,732</u>	<u>116,323</u>
	<u>\$ 1,416,154</u>	<u>\$ 531,266</u>	<u>\$ 884,888</u>
<u>September 30, 2005</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Patents	\$ 1,223,325	\$ 454,329	\$ 768,996
Registered trademarks	<u>166,465</u>	<u>58,757</u>	<u>107,708</u>
	<u>\$ 1,389,790</u>	<u>\$ 513,086</u>	<u>\$ 876,704</u>

During the three month period ended December 31, 2005, the Company recorded patents and trademarks amortization expense of \$18,180 (2004 - \$17,874).

**5. Property and equipment**

<u>December 31, 2005</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Furniture and equipment	\$ 166,392	\$ 84,239	\$ 82,153
Computer hardware	243,908	42,449	201,459
Computer software	133,221	53,914	79,307
Lab equipment	217,410	27,012	190,398
Automobiles	44,788	9,909	34,879
Equipment under capital leases	<u>52,434</u>	<u>25,441</u>	<u>26,993</u>
	<u>\$ 858,153</u>	<u>\$ 242,964</u>	<u>\$ 615,189</u>
<u>September 30, 2005</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Furniture and equipment	\$ 161,972	\$ 76,832	\$ 85,140
Computer hardware	189,052	32,621	156,431
Computer software	124,564	39,504	85,060
Lab equipment	143,957	18,860	125,097
Automobiles	44,788	6,719	38,069
Equipment under capital leases	<u>52,434</u>	<u>22,468</u>	<u>29,966</u>
	<u>\$ 716,767</u>	<u>\$ 197,004</u>	<u>\$ 519,763</u>

During the three month period ended December 31, 2005, the Company recorded property and equipment amortization expense of \$45,961 (2004 - \$15,910).

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**CV Technologies Inc.**

**Notes to the Consolidated Financial Statements**

For the three month period ended December 31, 2005  
**(Unaudited)**

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**6. Demand loan**

The Company has a demand operating line of credit up to a maximum of \$7,500,000 based on accounts receivable and research and development scientific tax credits. The operating line bears interest at Royal Bank of Canada prime rate plus 0.75% 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. Since repayment of the balance of \$180,970 during the three month period ended December 31, 2004 the Company has not drawn on the line of credit.

**7. 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:

2006	\$	23,454
2007		23,277
2008		2,389
2009		1,593
2010 and thereafter		<u>215</u>
Total minimum lease payments		50,928
Less: amounts representing interest at a weighted average rate of 14.78%		<u>3,812</u>
Balance of obligations under capital leases		47,116
Less: current portion		<u>26,997</u>
Long term balance of obligations under capital leases	\$	<u>20,119</u>

**8. Deferred revenue**

During the three month period ended December 31, 2005, the Company received a deposit of \$150,000. This deposit requires a guaranteed volume of inventory to be available to the customer at any given time.

**9. Non-controlling interest**

In the period ended December 31, 2004, the non-controlling interest represented the 42.6% equity interest of the minority shareholders in the Company's subsidiary, ChemBioPrint Asia Limited. On August 15, 2005, the Company acquired substantially all, 99.1%, remaining issued and outstanding shares (Note 3). The non-controlling interest share of subsidiary loss of \$14 and equity balance of \$415 (September 30, 2005 - \$401) have not been presented for the December 31, 2005 statement of earnings and balance sheet respectively as they are not considered material.

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**CV Technologies Inc.**  
**Notes to the Consolidated Financial Statements**

For the three month period ended December 31, 2005  
**(Unaudited)**

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**10. Share capital**

**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, 2004	91,588,201	\$ 18,833,667
Exercise of options	5,729,970	1,694,078
Exercise of warrants	<u>3,870,000</u>	<u>457,000</u>
Balance September 30, 2005	101,188,171	\$ 20,984,745
Exercise of options	<u>40,169</u>	<u>26,840</u>
Balance December 31, 2005	<u>101,228,340</u>	<u>\$ 21,011,585</u>

**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 19,170,442 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, 2005 there are 16,090,601 (September 30, 2005 – 16,180,770) stock options outstanding, which are exercisable at prices ranging from \$0.10 to \$4.32 and expire between June 15, 2006 and November 25, 2010. A summary of the status of the Company's stock options for the periods presented and changes during the periods ended on those dates are as follows:

December 31, 2005

	<u>Stock Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of year	16,180,770	\$ 1.11
Granted	50,000	4.32
Forfeited/cancelled	(100,000)	0.20
Exercised	<u>(40,169)</u>	<u>0.30</u>
Outstanding, end of period	<u>16,090,601</u>	<u>\$ 1.12</u>
Exercisable, end of period	<u>11,335,601</u>	<u>\$ 0.40</u>

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**CV Technologies Inc.**  
**Notes to the Consolidated Financial Statements**

For the three month period ended December 31, 2005  
**(Unaudited)**

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**10. Share capital (cont'd)**

<u>September 30, 2005</u>	<u>Stock Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of year	17,294,444	\$ 0.37
Granted	4,769,000	2.83
Reinstated	4,546	0.29
Forfeited/cancelled	(157,250)	1.13
Exercised	<u>(5,729,970)</u>	<u>0.30</u>
Outstanding, end of year	<u>16,180,770</u>	<u>\$ 1.11</u>
Exercisable, end of year	<u>11,442,770</u>	<u>\$ 0.40</u>

The stock options granted after October 1, 2002 and before March 3, 2005 fully vested as of March 31, 2005. All stock options granted on or after March 3, 2005 vest at 20% per year over five years.

The following table summarizes information about the stock options outstanding at December 31, 2005:

<u>Exercise Price</u>	<u>Number Outstanding</u>	<u>Remaining Contractual Life (years)</u>	<u>Number Exercisable</u>
\$ 0.10	170,000	1.41	170,000
0.15	5,878,158	2.35	5,878,158
0.20	95,000	2.47	95,000
0.23	160,000	0.45	160,000
0.25	33,000	2.75	33,000
0.50	250,000	3.46	250,000
0.57	218,000	3.58	218,000
0.71	930,916	3.02	930,916
0.74	3,600,527	3.35	3,600,527
2.62	250,000	4.55	-
2.84	4,455,000	4.17	-
4.32	50,000	4.90	-
	<u>16,090,601</u>		<u>11,335,601</u>

**Warrants**

The Company has no warrants outstanding at December 31, 2005. During the fiscal year ended September 30, 2005, 3,870,000 remaining warrants were exercised at an average weighted price of \$0.12. These warrants were exercisable at the option of the holder into common shares at a price range from \$0.10 to \$0.12 per share and expired November 29, 2004 and May 13, 2005.

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**CV Technologies Inc.**  
**Notes to the Consolidated Financial Statements**

For the three month period ended December 31, 2005  
**(Unaudited)**

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**11. Contributed surplus**

For stock options granted after October 1, 2004, the Company records compensation expense using the fair value method. Fair values are determined using the Black–Scholes option pricing model. Compensation costs are recognized over the vesting period as an increase to stock-based compensation expense and contributed surplus. When options are subsequently exercised, the fair value of such options in contributed surplus is credited to share capital. During the period, contributed surplus has changed as follows:

	December 31, <u>2005</u>	September 30, <u>2005</u>
Balance, beginning of year	\$ 4,873,068	\$ 71,558
Stock-based compensation recognition of fair value of stock options granted to:		
- Employees, officers and directors	573,022	2,822,040
- Non-employees	4,598	119,754
Retroactive application of stock-based compensation according to CICA 3870 (Note 2)	<u>-</u>	<u>1,859,716</u>
Balance, end of period	<u>\$ 5,450,688</u>	<u>\$ 4,873,068</u>

On March 3, 2005, the Company granted 4,519,000 options exercisable at \$2.84. The compensation expense is recognized over the five year vesting period of the options. The fair value of the options granted was \$2.46 per option, estimated using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 3.75%, dividend yield of 0%, volatility factor of 129.61%, and an expected life of five years.

On July 18, 2005, the Company granted 250,000 options exercisable at \$2.62. The compensation expense is recognized over the five year vesting period of the options. The fair value of the options granted was \$2.24 per option, estimated using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 4.00%, dividend yield of 0%, volatility factor of 126.72%, and an expected life of five years.

On November 25, 2005, the Company granted 50,000 options exercisable at \$4.32. The compensation expense is recognized over the five year vesting period of the options. The fair value of the options granted was \$3.64 per option, estimated using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 3.89%, dividend yield of 0%, volatility factor of 122.40%, and an expected life of five years.

The fair value of the options granted prior to October 1, 2004 was \$0.50 per option, estimated using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 4.25%, dividend yield of 0%, volatility factor of 115.6%, and an expected life of three years.

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**CV Technologies Inc.**  
**Notes to the Consolidated Financial Statements**

For the three month period ended December 31, 2005  
**(Unaudited)**

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**11. Contributed surplus (cont'd)**

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option-pricing models require the use of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective assumptions can have a material effect on the fair value estimate, in management's opinion, the existing option-pricing models do not necessarily provide a reliable single measure of the fair value of the employee stock options.

**12. Earnings per share**

The following table sets forth the computation of basic and diluted earnings per share:

	December 31, <u>2005</u>	December 31, <u>2004</u>
Numerator for basic earnings per share	<u>\$ 4,415,736</u>	<u>\$ 4,196,092</u>
Denominator for basic earnings per share:		
Weighted average number of common shares	<u>101,197,519</u>	<u>92,491,167</u>
Dilutive effect of stock options	11,656,604	13,516,497
Dilutive effect of warrants	<u>-</u>	<u>3,124,809</u>
Denominator for diluted earnings per share	<u>112,854,123</u>	<u>109,132,473</u>
Earnings per share		
Basic	\$ 0.04	\$ 0.05
Diluted	\$ 0.04	\$ 0.04

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**CV Technologies Inc.**  
**Notes to the Consolidated Financial Statements**

For the three month period ended December 31, 2005  
**(Unaudited)**

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**13. Supplemental cash flow information**

	December 31, <u>2005</u>	December 31, <u>2004</u>
Cash and cash equivalents consist of:		
Balances with banks	\$ 17,169,946	\$ 303,383
Deposits outstanding in excess of cheques issued	<u>208,078</u>	<u>652,740</u>
	<u>\$ 17,378,024</u>	<u>\$ 956,123</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>
Interest paid	<u>\$ 6,997</u>	<u>\$ 10,484</u>
Non-cash financing and investing activity:		
Purchase of assets under capital leases	<u>\$ -</u>	<u>\$ 4,400</u>

**14. Related party transactions**

During the fiscal year ended September 30, 2005, the Company paid \$30,080 in supplemental study fees on behalf of Vet Ex Inc., which is controlled by the Company. As at September 30, 2005, 60% of this transaction has been eliminated through consolidation and the remaining balance is included in accounts receivable. There are no transactions with Vet Ex Inc. for the three month period ended December 31, 2005.

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

**15. Income taxes**

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

The Company has accumulated a Scientific Research and Experimental Development pool of \$1,830,158 which can be carried forward indefinitely to be utilized in computing taxable income in future years. The Company has non-refundable SR & ED investment tax credits of approximately \$706,277. It is anticipated that these balances will be utilized in the current fiscal year. The SR & ED claim for 2005 has not yet been filed and the SR & ED claims for 2003 and 2004 have not yet been assessed.

**CV Technologies Inc.**  
**Notes to the Consolidated Financial Statements**

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**(Unaudited)**

**15. Income taxes** (cont'd)

**Income tax expense reconciliation**

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

	December 31, <u>2005</u>
Expected income tax expense at 34.17%	\$ 2,550,025
Increase resulting from:	
Income tax rate adjustments	11,704
Non-deductible costs	196,264
Elimination of joint venture income	15,377
SR & ED adjustments	174,581
R & D adjustment	88,126
Other	<u>10,947</u>
Income tax expense	<u>\$ 3,047,024</u>

The Company did not recognize income tax recoveries or expenses prior to September 30, 2005.

**Temporary differences**

Future income tax assets and liabilities are recognized for temporary differences between the carrying amount of the balance sheet items and their corresponding tax values as well as for the benefit of losses available to be carried forward to future tax years that are likely to be realized.

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

	December 31, <u>2005</u>	September 30, <u>2005</u>
<b>Current assets</b>		
SR & ED expenditures carried forward	\$ -	\$ 793,198
Share issue costs	6,950	3,907
Reserves	<u>5,915</u>	<u>4,963</u>
	<u>12,865</u>	<u>802,068</u>
<b>Non-current assets</b>		
Capital and other assets	-	45,118
Share issue costs	<u>-</u>	<u>3,908</u>
	<u>-</u>	<u>49,026</u>
<b>Non-current liabilities</b>		
Capital and other assets	<u>(300,295)</u>	<u>-</u>
Net future tax (liability) asset	<u>\$ (287,430)</u>	<u>\$ 851,094</u>

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**CV Technologies Inc.**  
**Notes to the Consolidated Financial Statements**

For the three month period ended December 31, 2005  
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**16. Segmented information**

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

**Geographic information**

December 31, 2005

	<u>Revenue</u>	<u>Property and Equipment</u>
Canada	\$ 18,939,721	\$ 615,189
Other	<u>553</u>	<u>-</u>
	<u>\$ 18,940,274</u>	<u>\$ 615,189</u>

December 31, 2004

	<u>Revenue</u>	<u>Property and Equipment</u>
Canada	\$ 11,303,653	\$ 310,602
Other	<u>-</u>	<u>1,384</u>
	<u>\$ 11,303,653</u>	<u>\$ 311,986</u>

**Significant customers**

During the three month period ended December 31, 2005, four (2004 - three) major customers accounted for \$12,141,599 or 64.1% (2004 - \$7,059,170 or 62.5%) of the Company's product sales.

**17. Commitments**

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. 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 three month period ended December 31, 2005, the Company expensed \$118,920 (2004 - \$173,113) of this financial assistance, which was charged to earnings. At December 31, 2005, \$118,920 (2004 - \$215,097) is included in accounts payable and accruals and the entire amount of the obligation relating to this agreement has been repaid.

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**CV Technologies Inc.**  
**Notes to the Consolidated Financial Statements**

For the three month period ended December 31, 2005  
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**17. Commitments** (cont'd)

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, 2005, \$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 three month period ended December 31, 2005, the Company expensed \$324,177 (2004 - \$173,113) of this financial assistance, which was charged to earnings. At December 31, 2005, \$324,177 (2004 - \$270,097) is included in accounts payable and accruals. Up to December 31, 2005, the Company has expensed \$968,058 since inception relating to this agreement.

c) The Company has entered into agreements to lease premises in Edmonton, Alberta and Toronto, Ontario. These leases expire at various dates ranging from June 30, 2006 to September 30, 2010, and for which minimum lease payments total \$982,593.

The following is a schedule by fiscal year of future minimum lease payments:

2006	\$ 255,531
2007	289,685
2008	188,585
2009	147,792
2010	<u>101,000</u>
Total minimum lease payments	<u>\$ 982,593</u>

**18. Cyclical nature of business**

The Company's lead product's sales are greater in the first, second and fourth quarters of the fiscal year.

**19. 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.

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**CV Technologies Inc.**  
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For the three month period ended December 31, 2005  
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**19. Joint venture (cont'd)**

	December 31, <u>2005</u>	September 30, <u>2005</u>
Assets		
Cash and cash equivalents	\$ <u>22,510</u>	\$ <u>22,519</u>
Liabilities		
Accounts payable and accruals	\$ <u>77</u>	\$ <u>77</u>

**Product sales, expenses and cash flows for the period ended**

	December 31, <u>2005</u>	December 31, <u>2004</u>
Product sales	\$ <u>-</u>	\$ <u>-</u>
Expenses		
Interest and bank charges	<u>9</u>	<u>12</u>
Net (loss) earnings	\$ <u>(9)</u>	\$ <u>(12)</u>
Cash flows		
Cash flows from operating activities	\$ <u>(9)</u>	\$ <u>(12)</u>

**20. Subsequent events**

Subsequent to December 31, 2005, 735,000 options were exercised for cash proceeds of \$142,500.

Subsequent to December 31, 2005, the Company entered into two agreements to lease premises in Edmonton, Alberta. These leases expire July 31, 2007 and January 31, 2009 and have minimum lease payments totalling \$360,780. After twelve months of compliance, the Company may terminate the second lease agreement with sixty days written notice. The commitments related to these agreements have been included in Note 17c.

**21. Comparative figures**

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