

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

Nine month period ended June 30, 2006

## CV Technologies Inc. Consolidated Statements of Earnings

(Unaudited)

	Three month period ended June 30		Nine month period ended June 30	
	2006	2005	2006	2005
Product sales	\$ 3,241,775	\$ 2,836,242	\$ 33,097,015	\$ 24,660,547
Cost of goods sold	1,022,026	586,501	9,209,462	5,704,007
Gross margin	2,219,749	2,249,741	23,887,553	18,956,540
Gross margin (%)	68.5%	79.3%	72.2%	76.9%
Operating expenses				
Consulting, contracting and professional fees	1,022,023	128,169	2,527,778	1,218,547
Advertising and marketing	1,014,741	709,001	5,586,641	4,445,924
Salaries and employee benefits	754,967	563,762	2,198,151	1,384,037
Stock-based compensation	587,653	554,314	2,104,576	2,373,989
Administration, occupancy and insurance	579,915	300,929	1,428,738	890,485
Research and development	562,840	271,110	2,209,779	1,312,659
Amortization of deferred development costs	90,400	90,400	271,200	180,800
Amortization of patents and registered trademarks and property and equipment	86,355	48,698	215,506	117,901
Public relations and business promotion	54,444	60,002	450,516	228,661
Interest and bank charges	22,374	5,164	37,374	20,848
Bad debts	1,377	18,751	13,650	18,751
	4,777,089	2,750,300	17,043,909	12,192,602
Earnings before other revenue, non-controlling interest and income taxes	(2,557,340)	(500,559)	6,843,644	6,763,938
Other revenue (expenses)				
Interest revenue	154,285	27,397	334,250	27,396
(Loss) gain on foreign exchange	(24,847)	(4,812)	(55,135)	6,298
Other items	(617)	10,176	(1,215)	8,808
	128,821	32,761	277,900	42,502
Earnings before non-controlling interest and income taxes	(2,428,519)	(467,798)	7,121,544	6,806,440
Non-controlling interest share of subsidiary loss	-	1,340	-	4,467
Earnings before income taxes	(2,428,519)	(466,458)	7,121,544	6,810,907
Income taxes				
Current (Note 15)	(663,408)	-	2,334,626	-
Future (Note 15)	7,062	-	1,155,915	-
	656,346	-	3,490,541	-
Net earnings (loss)	\$ (1,772,173)	\$ (466,458)	\$ 3,631,003	\$ 6,810,907

See accompanying notes to the consolidated financial statements

**CV Technologies Inc.**  
**Consolidated Statements of Deficit**

(Unaudited)

	Three month period ended June 30		Nine month period ended June 30	
	2006	2005	2006	2005
Deficit, beginning of period	\$ (614,219)	\$ (8,833,268)	\$ (6,017,395)	\$ (14,250,917)
Change in accounting policy (Note 11)	-	-	-	(1,859,716)
As restated	(614,219)	(8,833,268)	(6,017,395)	(16,110,633)
Net earnings (loss)	(1,772,173)	(466,458)	3,631,003	6,810,907
Deficit, end of period	<u>\$ (2,386,392)</u>	<u>\$ (9,299,726)</u>	<u>\$ (2,386,392)</u>	<u>\$ (9,299,726)</u>
Net earnings (loss) per share (Note 12)				
Basic earnings per share	\$ (0.02)	\$ 0.00	\$ 0.04	\$ 0.07
Diluted earnings per share	\$ (0.02)	\$ 0.00	\$ 0.03	\$ 0.06

See accompanying notes to the consolidated financial statements

## CV Technologies Inc. Consolidated Balance Sheets

	June 30, 2006 (Unaudited)	September 30, 2005 (Audited)
<b>Assets</b>		
Current		
Cash and cash equivalents	\$ 16,957,907	\$ 5,951,981
Accounts receivable	736,151	6,293,660
Inventory	11,821,314	7,636,637
Prepaid expenses and deposits	392,328	49,977
Future income taxes (Note 15)	10,066	802,068
	29,917,766	20,734,323
Patents and registered trademarks (Note 4)	879,846	876,704
Property and equipment (Note 5)	1,482,076	519,763
Deferred development costs (Note 2)	1,265,604	1,536,805
Future income taxes (Note 15)	-	49,026
	\$ 33,545,292	\$ 23,716,621
<b>Liabilities</b>		
Current		
Accounts payable and accruals	\$ 5,590,407	\$ 3,778,378
Current income taxes payable	1,623,568	-
Deferred revenue (Note 8)	170,000	-
Current portion of obligations under capital leases (Note 7)	17,038	25,123
Current portion of lease inducements	3,923	3,095
Future income taxes (Note 15)	237,945	-
	7,642,881	3,806,596
Future income taxes (Note 15)	76,942	-
Deferred revenue	-	30,000
Obligations under capital leases (Note 7)	5,758	27,939
Lease inducements	11,425	11,668
	7,737,006	3,876,203
<b>Shareholders' Equity</b>		
Share capital (Note 10)	22,279,505	20,984,745
Contributed surplus (Note 11)	5,915,173	4,873,068
Deficit	(2,386,392)	(6,017,395)
	25,808,286	19,840,418
	\$ 33,545,292	\$ 23,716,621
Commitments (Note 17)		
Subsequent events (Note 20)		

See accompanying notes to the consolidated financial statements

# CV Technologies Inc.

## Consolidated Statements of Cash Flows

(Unaudited)

	Three months ended June 30		Nine months ended June 30	
	2006	2005	2006	2005
<b>Operating</b>				
Net earnings (loss)	\$ (1,772,173)	\$ (466,458)	\$ 3,631,003	\$ 6,810,907
Items not affecting cash				
Future income taxes	7,062	-	1,155,915	-
Amortization	176,755	139,098	486,706	298,701
Gain on disposal of assets		(22,216)	-	(22,216)
Non-controlling interest share of loss	-	(1,340)	-	(4,467)
Stock-based compensation	587,653	554,314	2,104,576	2,373,989
	(1,000,703)	203,398	7,378,200	9,456,914
Change in non-cash operating working capital				
Accounts receivable	893,458	3,737,845	5,557,509	629,992
Inventory	(4,043,288)	(2,668,956)	(4,184,677)	(3,430,098)
Prepaid expenses and deposits	145,634	(85,179)	(342,351)	108,533
Accounts payable and accruals	1,083,791	(186,022)	1,812,021	801,759
Current income taxes payable	(664,374)	-	1,623,568	-
Lease inducements	(981)	(1,837)	585	(7,344)
Deferred revenue	-	-	140,000	-
	(3,586,463)	999,249	11,984,855	7,559,756
<b>Financing</b>				
Repayment of demand loan	-	-	-	(1,275,000)
Repayment of obligations under capital leases	(18,159)	(5,468)	(30,266)	(15,080)
Issuance of share capital	46,800	254,425	232,290	1,887,778
	28,641	248,957	202,024	597,698
<b>Investing</b>				
Purchase of property and equipment	(731,374)	(208,240)	(1,120,253)	(344,451)
Purchase of patents and registered trademarks	(26,756)	(3,783)	(60,700)	(31,046)
	(758,130)	(212,023)	(1,180,953)	(375,497)
Increase in cash and cash equivalents	(4,315,952)	1,036,183	11,005,926	7,781,957
Cash and cash equivalents (bank indebtedness)				
Beginning of period	21,273,859	6,564,804	5,951,981	(180,970)
End of period	<u>\$ 16,957,907</u>	<u>\$ 7,600,987</u>	<u>\$ 16,957,907</u>	<u>\$ 7,600,987</u>

Supplemental cash flow information (Note 13)

See accompanying notes to the consolidated financial statements

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# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

For the nine month period ended June 30, 2006

(Unaudited)

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### 1. Nature of operations

CV Technologies Inc. (the "Company") 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 Toronto Stock 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 Canadian Institute of Chartered Accountants ("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, 100% of its subsidiaries, COLD-fX Pharmaceutical (USA) Inc., CVT Capital Inc. and ChemBioPrint Asia Limited (September 30, 2005 – 99.1%, June 30, 2005 – 57.4%) 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 period.

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**CV Technologies Inc.**

**Notes to the Consolidated Financial Statements**

For the nine month period ended June 30, 2006  
**(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 period 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.

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**

Inventories are valued by the average cost method and recognized at the lower of cost or net realizable value.

**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.

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**CV Technologies Inc.**

**Notes to the Consolidated Financial Statements**

For the nine month period ended June 30, 2006

**(Unaudited)**

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

**Property and equipment**

Costs are capitalized on commercial properties which are under development, including all expenditures incurred in connection with the acquisition, development, construction and initial predetermined leasing period. These expenditures consist of all direct costs, interest on debt that is related to these assets and certain administrative expenses. Amortization of this asset commences when the property is complete and available for use.

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

Computer hardware	20%, declining balance
Lab equipment	20%, declining balance
Furniture and equipment	20 - 30%, declining balance
Computer software	50%, declining balance
Leasehold improvements	Straight-line over term of lease
Automobiles	30%, declining balance
Equipment under capital leases	20%, declining balance

**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 has 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 and nine month periods ended June 30, 2006, \$90,400 and \$271,200, respectively (2005 - \$90,400 and \$180,800), 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 principle criteria for deferral and amortization.

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**CV Technologies Inc.**

**Notes to the Consolidated Financial Statements**

For the nine month period ended June 30, 2006

**(Unaudited)**

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

**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.

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 interest rate 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 June 30, 2006.

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**CV Technologies Inc.**

**Notes to the Consolidated Financial Statements**

For the nine month period ended June 30, 2006

**(Unaudited)**

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

**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 June 30, 2006.

**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.

**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.

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

For the nine month period ended June 30, 2006

**(Unaudited)**

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**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. ChemBioPrint Asia has remained dormant since February 28, 2006. 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.

**4. Patents and registered trademarks**

June 30, 2006

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Patents	\$ 1,249,755	\$ 500,499	\$ 749,256
Registered trademarks	<u>200,155</u>	<u>69,565</u>	<u>130,590</u>
	<u>\$ 1,449,910</u>	<u>\$ 570,064</u>	<u>\$ 879,846</u>

September 30, 2005

	<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 and nine month periods ended June 30, 2006, the Company recorded patents and trademarks amortization expense of \$18,823 and \$57,558, respectively (2005 - \$19,019 and \$54,948).

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

For the nine month period ended June 30, 2006  
**(Unaudited)**

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**5. Property and equipment**

<u>June 30, 2006</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Computer hardware	\$ 324,189	\$ 64,515	\$ 259,674
Lab equipment	316,365	95,546	220,819
Furniture and equipment	243,321	42,921	200,400
Computer software	244,536	77,006	167,530
Leasehold improvements	80,416	32,717	47,699
Automobiles	44,788	15,284	29,504
Equipment under capital leases	52,434	26,963	25,471
Building construction	<u>530,979</u>	<u>-</u>	<u>530,979</u>
	<u>\$ 1,837,028</u>	<u>\$ 354,952</u>	<u>\$ 1,482,076</u>

<u>September 30, 2005</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Computer hardware	\$ 189,052	\$ 32,621	\$ 156,431
Lab equipment	143,957	18,860	125,097
Furniture and equipment	161,972	76,832	85,140
Computer software	124,564	39,504	85,060
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 and nine month periods ended June 30, 2006, the Company recorded property and equipment amortization expense of \$67,532 and \$157,948, respectively (2005 - \$29,679 and \$62,951).

**6. Demand loan**

The Company has a demand operating line of credit up to a maximum of \$7,500,000 based on accounts receivable, inventory and research and development scientific tax credits. The operating line bears interest at bank 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 nine month period ended March 31, 2005 the Company has not drawn on the line of credit.

During the three month period ended June 30, 2006, two irrevocable standby letters of credit were issued in the amount of \$124,000 and \$495,600. The letters of credit will remain in effect respectively until December 31, 2006 and June 30, 2007. The letters of credit were issued to meet the conditions of the land sublease. The land will be utilized to build the Company's headquarters and research centre.

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

For the nine month period ended June 30, 2006

(Unaudited)

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**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	\$ 5,192
2007	13,904
2008	2,239
2009	1,518
2010 and thereafter	<u>214</u>
Total minimum lease payments	23,067
Less: amounts representing interest at a weighted average rate of 14.78%	<u>271</u>
Balance of obligations under capital leases	22,796
Less: current portion	<u>17,038</u>
Long term balance of obligations under capital leases	<u>\$ 5,758</u>

**8. Deferred revenue**

Included in the Company's deferred revenue balance as at June 30, 2006 is a deposit received from a customer of \$150,000. This deposit requires a guaranteed volume of inventory to be available to the customer at any given time. An additional deposit of \$20,000 was received for anticipated participation and completion of a certification program.

**9. Non-controlling interest**

In the period ended March 31, 2005, 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 \$26 and equity balance of \$355 (September 30, 2005 - \$401) have not been presented for the June 30, 2006 statement of earnings and balance sheet respectively as they are not considered material.

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

For the nine month period ended June 30, 2006

(Unaudited)

### 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	101,228,340	\$ 21,011,585
Exercise of options	805,000	158,650
Recognition of fair value of options exercised	<u>-</u>	<u>1,037,870</u>
Balance, March 31, 2006	102,033,340	\$ 22,208,105
Exercise of options	90,000	46,800
Recognition of fair value of options exercised	<u>-</u>	<u>24,600</u>
Balance, June 30, 2006	<u>102,123,340</u>	<u>\$ 22,279,505</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.

As at June 30, 2006 there are 15,365,601 (September 30, 2005 – 16,180,770) stock options outstanding, which are exercisable at prices ranging from \$0.10 to \$4.32 and expire between May 28, 2007 and June 9, 2011. Of the options granted in the quarter ended June 30, 2006, 200,000 are subject to shareholder approval. 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:

#### June 30, 2006

	<u>Stock Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of year	16,180,770	\$ 1.11
Granted	280,000	\$ 3.49
Forfeited/cancelled	(160,000)	\$ 1.26
Exercised	<u>(935,169)</u>	<u>\$ 0.22</u>
Outstanding, end of period	<u>15,365,601</u>	<u>\$ 1.20</u>
Exercisable, end of period	<u>11,331,601</u>	<u>\$ 0.61</u>

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

For the nine month period ended June 30, 2006

**(Unaudited)**

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

September 30, 2005

	<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 June 30, 2006:

<u>Exercise Price</u>	<u>Number Outstanding</u>	<u>Remaining Contractual Life (years)</u>	<u>Number Exercisable</u>
\$ 0.10	170,000	0.91	170,000
\$ 0.15	5,228,158	1.85	5,228,158
\$ 0.20	95,000	1.98	95,000
\$ 0.25	33,000	2.26	33,000
\$ 0.50	250,000	2.97	250,000
\$ 0.57	143,000	3.09	143,000
\$ 0.71	930,916	2.53	930,916
\$ 0.74	3,600,527	2.86	3,600,527
\$ 2.62	250,000	4.05	-
\$ 2.84	4,405,000	3.68	881,000
\$ 3.29	200,000	4.95	-
\$ 3.42	10,000	4.67	-
\$ 4.32	50,000	4.41	-
	<u>15,365,601</u>		<u>11,331,601</u>

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**CV Technologies Inc.**

**Notes to the Consolidated Financial Statements**

For the nine month period ended June 30, 2006  
(Unaudited)

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

**Warrants**

The Company has no warrants outstanding at June 30, 2006. 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.

**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 nine month period, contributed surplus has changed as follows:

	June 30 <u>2006</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	2,080,890	2,822,040
- Non-employees	23,685	119,754
Recognition of fair value of stock options exercised by:		
- Employees, officers and directors	(927,716)	-
- Non-employees	(134,754)	-
Retroactive application of stock-based compensation according to CICA 3870 (Note 2)	<u>-</u>	<u>1,859,716</u>
Balance, end of period	<u>\$ 5,915,173</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.

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

For the nine month period ended June 30, 2006  
**(Unaudited)**

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

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.

On February 27, 2006, the Company granted 30,000 options exercisable at \$3.42. The compensation expense is recognized over the five year vesting period of the options. The fair value of the options granted was \$2.81 per option, estimated using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 4.08%, dividend yield of 0%, volatility factor of 115.08%, and an expected life of five years.

On June 9, 2006, the Company granted 200,000 options exercisable at \$3.29. The compensation expense is recognized over the five year vesting period of the options. The fair value of the options granted was \$2.69 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 113.31%, 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.

**12. Earnings per share**

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

	Three month period ended June 30		Nine month period ended June 30	
	2006	2005	2006	2005
Numerator for basic Earnings per share	<u>\$ (1,772,173)</u>	<u>\$ (466,458)</u>	<u>\$ 3,631,003</u>	<u>\$ 6,810,907</u>
Denominator: Weighted average common shares	<u>102,051,582</u>	<u>99,644,075</u>	<u>101,741,085</u>	<u>96,335,261</u>
Dilutive effect of stock Options	9,699,362	10,578,009	10,666,887	12,356,992
Dilutive effect of warrants	-	-	-	1,535,818
Denominator for diluted Earnings per share	<u>111,750,944</u>	<u>110,222,084</u>	<u>112,407,972</u>	<u>110,228,072</u>

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

For the nine month period ended June 30, 2006  
**(Unaudited)**

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

In calculating the diluted earnings per share for the three and nine months ended June 30, 2006, the Company excluded 280,000 (2005 – nil) and 50,000 (2005 – nil) options respectively as the exercise price was greater than the average market price of its common shares in those periods.

**13. Supplemental cash flow information**

	<u>June 30</u> <u>2006</u>	<u>June 30,</u> <u>2005</u>
Cash and cash equivalents consist of:		
Balances with banks	\$ 17,255,330	\$ 7,665,658
Cheques issued in excess of funds on deposit	<u>(297,423)</u>	<u>(64,671)</u>
	<u>\$ 16,957,907</u>	<u>\$ 7,600,987</u>

	Three month period ended June 30		Nine month period ended June 30	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Interest paid	<u>\$ 22,374</u>	<u>\$ 5,164</u>	<u>\$ 37,374</u>	<u>\$ 20,847</u>
Non-cash financing and investing activity:				
Purchase of assets under capital lease	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,936</u>
Proceeds accrued for insurance claim	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ 50,000</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 June 30, 2006 (2005 - \$15,167).

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.

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

For the nine month period ended June 30, 2006  
**(Unaudited)**

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**15. Income taxes**

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

The Company has accumulated a Scientific Research and Experimental Development pool of \$1,617,172 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 \$700,253. 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.

**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:

	Three month period ended June 30, 2006	Nine month period ended June 30, 2006
Expected income tax expense at 33.69%	\$ (864,009)	\$ 2,399,248
Increase resulting from:		
Income tax rate adjustments	15,278	26,127
Non-deductible costs	193,790	717,727
Elimination of joint venture income	-	15,377
SR & ED adjustments	2,587	264,469
R & D adjustments	(1,052)	60,821
Other	(2,940)	6,772
Income tax expense	\$ (656,346)	\$ 3,490,541

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.

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

For the nine month period ended June 30, 2006

**(Unaudited)**

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

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

	June 30, <u>2006</u>	September 30, <u>2005</u>
Current assets		
SR & ED expenditures carried forward	\$ -	\$ 793,198
Non-capital loss carry-forward	-	-
Share issue costs	4,895	3,907
Reserves	<u>5,171</u>	<u>4,963</u>
	<u>10,066</u>	<u>802,068</u>
Non-current assets		
Capital and other assets	-	45,118
Share issue costs	<u>-</u>	<u>3,908</u>
	<u>-</u>	<u>49,026</u>
Current liabilities		
Capital and other assets	<u>(237,945)</u>	<u>-</u>
Non-current liabilities		
Capital and other assets	<u>(76,942)</u>	<u>-</u>
Net future tax (liabilities) assets	<u>\$ (304,821)</u>	<u>\$ 851,094</u>

**16. Segmented information**

During the three month period ended June 30, 2006, the Company commenced operations in the United States which resulted in a loss of \$15,090 CDN.

**Geographic information**

	Three month period ended June 30		Nine month period ended June 30	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Canada – Revenue	\$ 3,241,775	\$ 2,774,778	\$ 33,050,340	\$ 24,552,673
Other – Revenue	-	61,464	46,675	107,874
	<u>\$ 3,241,775</u>	<u>\$ 2,836,242</u>	<u>\$ 33,097,015</u>	<u>\$ 24,660,547</u>

**Significant customers**

During the three month period ended June 30, 2006, four (2005 - four) major customers accounted for \$1,685,854 or 52.0% (2005 - \$1,162,031 or 41.0%) of the Company's product sales.

During the nine month period ended June 30, 2006, four (2005 – four) major customers accounted for \$21,312,475 or 64.4% (2005 - \$16,450,638 or 66.7%) of the Company's product sales.

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

For the nine month period ended June 30, 2006

**(Unaudited)**

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**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 has been received.

The Company is obligated 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 and nine month periods ended June 30, 2006, the Company expensed \$nil and \$118,920, respectively (2005 - \$39,490 and \$370,671), of this financial assistance, which was charged to earnings. At June 30, 2006, \$nil (September 30, 2005 - \$138,100) is included in accounts payable and accruals. The entire amount of the obligation relating to this agreement has been repaid.

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 June 30, 2006, \$8,333 (2005 - \$8,333) of assistance is still available to the Company.

The Company is obligated 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 obligated to repay any of the assistance received should the Company have no future revenues on product sales.

During the three and nine month periods ended June 30, 2006, the Company expensed \$nil and \$356,120, respectively (2005 - \$39,490 and \$370,671), of this financial assistance, which was charged to earnings. At June 30, 2006, \$nil (September 30, 2005 - \$138,100) is included in accounts payable and accruals. Up to June 30, 2006, the Company has expensed the entire amount of the obligation relating to this agreement.

c) The Company has entered into agreements to lease premises in Edmonton, Alberta, Canada; Toronto, Ontario, Canada; Zug, Switzerland and Chicago, USA. These leases expire at various dates ranging from October 31, 2006 to September 30, 2010.

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

2006	\$ 97,740
2007	340,589
2008	210,760
2009	155,183
2010	<u>101,000</u>
Total minimum lease payments	<u>\$ 905,272</u>

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

For the nine month period ended June 30, 2006  
**(Unaudited)**

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**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. On June 22, 2006, the Company submitted 90 days written notice of termination of the Joint Venture Agreement.

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.

	June 30, <u>2006</u>	September 30, <u>2005</u>		
Assets				
Cash and cash equivalents	\$ <u>22,489</u>	\$ <u>22,519</u>		
Liabilities				
Accounts payable and accruals	\$ <u>77</u>	\$ <u>77</u>		
<b>Product sales, expenses and cash flows for the:</b>				
	Three month period ended June 30		Nine month period ended June 30	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Product sales	\$ -	\$ -	\$ -	\$ -
Expenses				
Research and development	8,948	9,100	8,948	9,100
Interest and bank charges	12	9	30	30
Net (loss) earnings	<u>\$ (8,960)</u>	<u>\$ (9,109)</u>	<u>\$ (8,978)</u>	<u>\$ (9,130)</u>
Cash flows				
Cash flows from operating activities	<u>\$ (12)</u>	<u>\$ (9)</u>	<u>\$ (30)</u>	<u>\$ (30)</u>

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# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

For the nine month period ended June 30, 2006  
(Unaudited)

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### 20. Subsequent events

Subsequent to June 30, 2006, CVT Capital Inc., a wholly owned subsidiary and property-management Company, entered into a new credit facility. The credit facility established \$4,680,000 by way of loan at bank prime rate plus 1.0%, fixed rate term loan at bank prime rate plus 0.675% and \$619,600 non-revolving demand facility by way of Letters of Guarantee. These facilities are secured by a General Security Agreement constituting a first ranking security in all property including the building and leasehold improvements provided by CV Technologies Inc. These credit facilities will finance construction costs of the Company's headquarters and research centre located in Edmonton, Alberta, Canada with estimated total project costs of \$9.5 million.

Subsequent to June 30, 2006, CVT Capital Inc. has satisfied all conditions within the lease for the land designated for the headquarters and research centre. The 10 year lease expires in 2015 with an option to renew for an additional 10 years at market rate. The lease contains an option to purchase the land for \$1,155,250 during the lease term. In the event the land is not purchased, CVT Capital Inc. may be required, at the request of the sublandlord, to restore the land to vacant, level, clean condition.

Subsequent to June 30, 2006, a new wholly owned subsidiary, fX Life Sciences International GmbH, was incorporated in Switzerland. fX Life Sciences International GmbH was established to manage intellectual property, brand building and manufacturing for international markets.

Subsequent to June 30, 2006, an intercompany transaction occurred which resulted in an estimated current tax liability of \$2.7 million. The offsetting tax asset will be amortized over the useful life of the underlying asset.

Subsequent to June 30, 2006, CV Technologies Inc. completed financing arrangements to increase the maximum demand operating line of credit from \$7.5 million to \$15.0 million. The credit line maximum is based on accounts receivable and inventory of CV Technologies Inc. and its subsidiaries and bears interest at prime rate plus 0.75%. The line of credit is secured by a Standard General Security Agreement, registered in the United States under Uniform Commercial Code filing for COLD-fX Pharmaceuticals Inc.

### 21. Comparative figures

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