

MANAGEMENT DISCUSSION AND ANALYSIS

The Company's interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles. 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 discussed with the Audit Committee of the Board of Directors of CV Technologies Inc. Actual results may differ under different assumptions and conditions. The following information should be read in conjunction with the Audited Consolidated Financial Statements for the year ended September 30, 2005 and the Unaudited Consolidated Financial Statements for the three month period ended June 30, 2006 and accompanying notes. All amounts are expressed in Canadian dollars, unless specified otherwise.

This discussion and analysis for the three-month period ended June 30, 2006 is prepared and contains disclosure of material changes occurring up to and including August 10, 2006.

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, including those comments predicting the timing and/or initiation of clinical trials, clinical trial results, and associated regulatory clearances, entry and timing of entry into the U.S. market and the potential for success of such initiatives. In addition to the risks outlined in the Risk Management section at the end of the discussion, factors which could cause actual results or events to differ include, but are not limited to: the impact of competition; consumer confidence and spending levels; general economic conditions; interest and currency exchange rates; unseasonable weather patterns; the cost and availability of capital; the cost and availability of grants/funding; and product development. Although we believe that the forward-looking statements contained herein are reasonable, we can give no assurance that our expectations are correct and 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. All forward-looking statements are expressly qualified in their entirety by this cautionary statement.

Overview

CV Technologies Inc. (the "Company") is a health sciences and technology company, founded in 1992 and headquartered in Edmonton, Alberta, Canada. The Company 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, the Company 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 to be safe, effective and consistent. The Company 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 the Company to secure the trust of consumers, trade professionals, healthcare practitioners, and government.

The Company's lead product, COLD-fX™, is designed to prevent and relieve colds and flu by strengthening the immune system. A United States Food and Drug Administration (FDA) regulated Phase II Clinical Trial showed COLD-fX™ reduces the risk of getting a lab confirmed influenza and respiratory syncytial virus (RSV) infection in a nursing home senior population by 89%. A Canadian pivotal trial in the general population which was reported in the Canadian Medical Association Journal 2005; 173(9): 1043-1048, showed COLD-fX™ reduced the average number of infections per person by 25% and reduced the number of recurrent infections by 56%. Severity was reduced by 31% and duration was reduced by 35%. All the Company's products are designed to support normal physiological/body functions with a user-friendly, natural formula. Utilizing its patented ChemBioPrint technology, the Company has developed and commercialized a selection of premium quality natural health products for health maintenance and disease prevention.

These products are:

- COLD-fX™ Strengthens the body's immune system
- REMEMBER-fX™ Enhances memory, 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

Third Quarter Highlights

- ✓ Sales increase of 14%
- ✓ Commencement of implementation of strategy to enter the U.S. market
- ✓ Mark Messier, six-time Stanley Cup champion agrees to be an official spokesperson for COLD-fX™
- ✓ Investment and structuring for international growth and entry into U.S. marketplace
- ✓ Board approval of the construction and financing of a new office headquarters and research centre including a 10 year land lease for \$1 per year

Liquidity and capital resources

The cash flow used by operations, excluding non-cash working capital items, was \$1.0 million for the third quarter (generated \$7.4 million in cash year to date). In fiscal 2005, cash flow generated from operations, excluding non-cash working capital items, was \$0.2 million (\$9.5 million for year to date). The primary difference in quarter over quarter was a difference of \$1.3 million in net earnings.

Sales and gross margin in the third quarter contributed to continuing positive cash flows. Higher fixed operating costs and expenditures in planning for international growth and U.S. market entry have impacted net earning. The results for the third quarter reflected the necessary investments that the Company has made in preparation for its launch of COLD-fX™ into the U.S. market.

On a year-to-date basis, cash outflow from operations in the third quarter 2006, excluding non-cash working capital items was \$0.010 per share or \$0.009 cents fully diluted (2005 – \$0.002 per share for basic and \$ 0.002 per share diluted).



CV Technologies Inc.

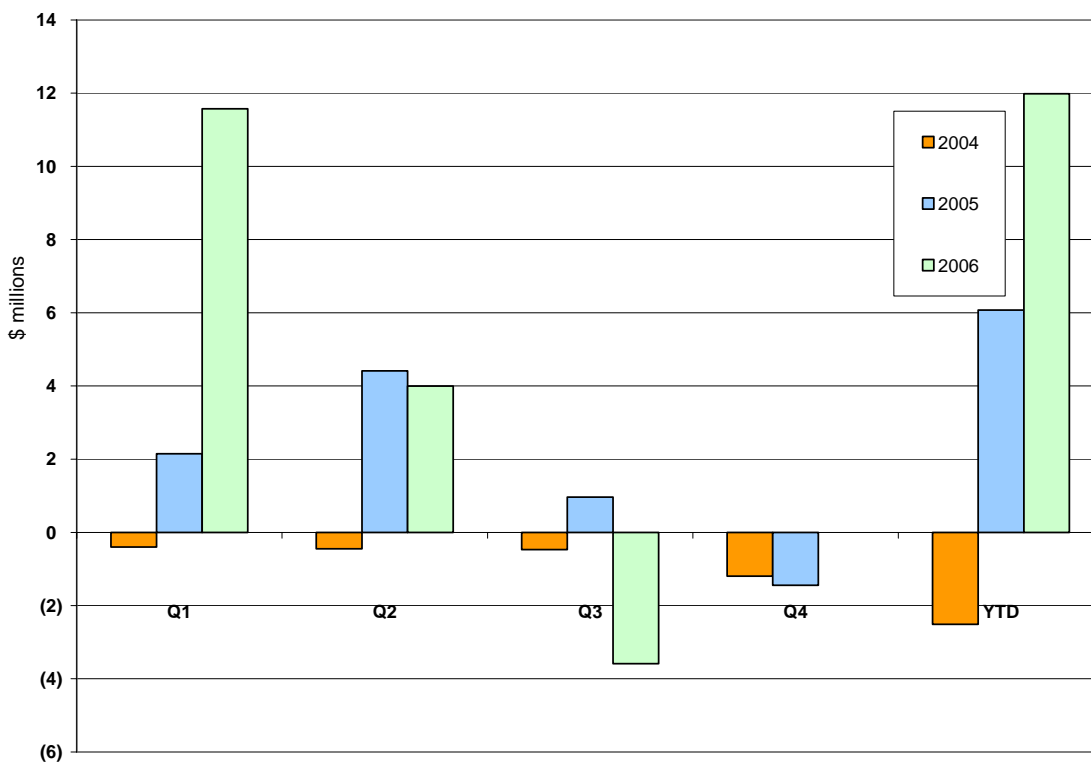
Quarterly Report for the Three Month Period Ended

June 30, 2006

Comparative liquidity (in thousands)	Quarter 3 Jun 30, 2006	Quarter 3 Jun 30, 2005	Fiscal Year Sep 30, 2005	Fiscal Year Sep 30, 2004
Cash and cash equivalents (indebtedness)	16,958	7,601	5,952	(181)
Working capital	22,275	12,914	16,928	1,924
Long-term liabilities	94	96	70	108

Subsequent to June 30, 2006, the maximum borrowing limit on the Company's demand operating credit facility was increased to \$15.0 million with margining based on receivables and inventory. Although the Company has not utilized its credit facility as shown in the liquidity summary above, the Company expects to use this facility to fund operations as it expands into the international marketplace. The Company was in a positive cash position of \$17.0 million and had \$22.3 million in working capital as of June 30, 2006. The Company also continued to strengthen its working capital position through expanding sales but used cash in preparation to enter the U.S. The following chart illustrates cash flow from operations including working capital items in fiscal 2005 and 2006.

Cash Flow From Operations



CV Technologies Inc.

Quarterly Report for the Three Month Period Ended

June 30, 2006

Major cash flow components (in thousands)	Quarter 3 Jun 30, 2006	Quarter 3 Jun 30, 2005	Fiscal year YTD Jun 30, 2006	Fiscal Year Sep 30, 2005	Fiscal Year Sep 30, 2004
Operating activities	(3,586)	999	11,985	6,124	(2,513)
Financing activities	29	249	202	855	2,539
Investing activities	(758)	(212)	(1,181)	(846)	(190)

The decrease in cash provided from operating activities during the third quarter of fiscal year 2006 was \$3.6 million. The net change from March 31, 2006 resulted from use of \$1.0 million (generation of cash \$0.2 million in third quarter of fiscal year 2005) from operations before working capital items and a use of \$2.6 million (generation of cash of \$0.8 million in the third quarter of fiscal year 2005) in non-cash working capital items.

The net change in cash used in operations was \$3.6 million compared to \$1.0 million generated for the same quarter last year.

The \$3.6 million use of cash in operations from the third quarter was primarily attributed to a \$4.0 million increase in inventory, an after tax loss of \$1.8 million and a decrease of \$0.7 million in taxes payable, offset by a \$1.1 million increase in trade and accrued payables, \$0.6 million for the non-cash stock compensation expense and \$0.2 million in non-cash amortization.

The quarter over quarter difference in cash from operating activities was a net decrease of \$4.6 million, explained by an increase in after tax loss of \$1.3 million, together with \$3.3 million in non-cash operating items.

The Company's financing activities in the third quarter of fiscal year 2006 provided \$29 thousand in cash (\$249 thousand in same quarter last year). The exercise of stock options in the third quarter generated \$47 thousand (90,000 common shares at an average of \$0.52 per share) compared to \$254 thousand for the same quarter last year. Repayment of leases in the third quarter was \$18 thousand compared to \$5 thousand in the same quarter in fiscal 2005.

The Company's investing activities in the third quarter used \$758 thousand (\$212 thousand in the same quarter last year). Investing activities primarily consisted of architectural and engineering costs with commencement of construction of a new office head quarters and research centre, office, computer, software and laboratory equipment purchases and expenditures on patents and trademarks in support of our business strategy. Expenditures for patents and registered trademarks were incurred in the protection and development of our intellectual property.

The Company expects the construction of the new building to cost \$9.5 million and has arranged financing of \$4.7 million of the project. Physical construction commenced in July.

Looking forward, the Company expects existing cash balances, cash generated by operations, financing to construct the new building, and funds available under the credit facility will be sufficient to meet the foreseeable requirements for business growth, working capital, and capital expenditures for the remainder of fiscal year 2006 and into 2007. The Company's working capital and capital expenditure



requirements depend upon numerous factors including the success of the introduction of new products, timing of market development programs, construction costs 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.

Share capital and stock-based compensation

In fiscal year 2005, the Company adopted and applied the new CICA 3870 standard for stock-based compensation and other stock-based payments. The Company has selected the method of retroactive application without restatement of prior periods during the transitional period.

As a result, an adjustment of \$1.86 million was applied to the opening deficit in the first quarter of the fiscal year 2005. During the third quarter of the fiscal year 2006, a non-cash expense of \$0.6 million (2005 –\$0.6 million) was recognized to reflect the fair value of stock options granted.

On June 9, 2006, the Board granted 200,000 options for common shares exercisable at a fair market value of \$3.29 per share with vesting at 20% per year. The fair value of options granted was \$537 thousand or \$2.69 per option.

In November 2005, the Board of Directors also approved a compensation model weighted more to cash with less reliance on stock options. The Board recognized that annual salaries must be competitive in the marketplace to enable the Company to retain talented employees and attract new, high quality employees who can add value and support the rapid growth the Company is now experiencing.

An Employee Bonus Program was implemented effective for the 2006 fiscal year. The Program is based on growing sales volumes and earnings. The Board believes these measures are appropriate at this stage of the Company's development for employee compensation and shareholder value. The basis of the accrual of bonus costs is on projected sales and profitability and is adjusted monthly.

Director compensation moved to a cash based system effective March 1, 2006. The structure of Director's fees will be as follows: Annual Retainer-\$5,000, Board meeting-\$1,000, Committee Chair-\$1,000, and Committee meeting-\$500. The Compensation Committee annually reviews and recommends to the Board the form and amount of Director compensation.

Outstanding shares

As at August 10, 2006;

- Number of issued and outstanding common Class A shares 102,123,340
- Number of outstanding, unexercised stock options 15,365,601

(Exercise price ranges from \$0.10 to \$4.32 per share with expiration dates ranging from 2006 to 2011.)



Results of Operations (Historical and Current)

Profitability

After tax loss was \$1.8 million (\$0.5 million loss for same quarter last year). The loss before tax was \$2.4 million (\$0.5 million loss for same quarter in fiscal 2005). Higher fixed operating costs and expenditures in planning for international growth and U.S. market entry have impacted net earning. The results for the third quarter reflected the necessary investments that the Company has made in preparation for its launch into the U.S. market.

In the third quarter of 2005, income tax expense was nil with the application of loss carry forwards and Scientific Research and Experimental Development ("SR&ED") expenditures. The Company established future tax assets in the fourth quarter of 2005, which resulted in an income tax recovery of \$1.6 million in fiscal year 2005. An analysis of components of the income statement is as follows:

Year to date net earnings after tax was \$3.6 million (\$6.8 million for same nine-month period last year). Year to date earnings before tax was \$7.1 million (\$6.8 million for same period in fiscal 2005).

Revenue

The Company reported net sales of \$3.2 million for the third quarter, exceeding the \$2.8 million in the same quarter of fiscal year 2005 by \$0.4 million (14.3%). Year to date net sales were \$33.1 million compared \$24.7 million in the same period in 2005 (34.2% increase). This accomplishment was through increased volume of sales of the Company's lead product COLD-fx™, through national retail partnerships with major Canadian retailers, sales of REMEMBER-fx™ and CELL-fx™, continuing focus on marketing and advertising of the Company's lead products, and through significant product awareness programs resulting from mainstream media coverage and education of healthcare professionals.

With the mild cold and flu season of the past year and mostly sporadic and localized outbreaks, management believes good progress was made in expanding sales through brand building. The Company continued to receive exposure on regional and national TV, through word of mouth endorsements, and third party validation and publicity resulting from the success of its clinical trials. Expanded distribution channels and targeted advertising and merchandising have enhanced the Company's presence in the marketplace.

The Company was particularly pleased with the news of Mark Messier joining its team as an official spokesperson in June to support U.S. and Canadian marketing and public awareness activities. Mark joins hockey commentator Don Cherry in the Company's brand building efforts throughout North America.

Management established growth objectives for its fiscal year 2006 in the areas of sales, distribution, and operations. The achievement of those objectives contributed to the 34% increase in year to date sales year over year contrary to the decline in the cough and cold category. COLD-fx™ was the number one selling cold remedy in Canada over the latest 52-week period ending January 21, 2006 according to ACNielsen.



Gross margin

The Company's third quarter gross margin decreased from 79.3% in fiscal year 2005 to 68.5% in the third quarter of 2006. As well, the margin dropped from 75.6% in the second quarter to 68.5% in the third quarter. This change was the result of continuing efforts to balance supply channels and mitigate risk for raw materials and manufacturers as well as incurring costs in deploying inventory and design and set-up costs for new inventory items for the U.S. market. There was a small write-down of obsolete inventories. The Company continues to focus on increased economies of scale, risk management, improved procurement and rigorous cost management while investing in the development of new markets.

The capacity of the Company's supply chain for ChemBioPrint products continues to expand to meet increasing demand. The strategy to outsource production and logistical activities aims to further reduce fixed costs and maximize production capacity and flexibility. Implementation of these strategies has contributed to a strong supply line.

Operating expenses

The third quarter operating costs-to-sales percentage has increased from 97% to 147% on a quarter-over-quarter basis. The Company invested in corporate planning and structuring for entry into the U.S. and international markets. Ongoing activities in brand building and to increase sales volumes contributed to the increased cost-to-sales percentage. Operating expenses for the third quarter of fiscal year 2006 were \$4.8 million as compared to \$2.8 million in the prior year.

This \$2.0 million (74%) increase in operating expenses over the same quarter from the prior year was comprised of the following:

- Consulting and professional fees increased by \$0.9 million. In the third quarter, the Company engaged numerous professionals in sales and marketing, regulatory, and business planning to prepare a feasibility study to enter the U.S. and execute implementation plan. Non-recurring consulting costs of approximately \$500 thousand were incurred in support of development of U.S. strategy and international corporate structuring.
- Sales and marketing expenses increased by \$0.3 million. Continuation of brand building efforts for COLD-fx™, REMEMBER-fx™ and CELL-fx™, media investment and promotional activities are instrumental in developing and sustaining the business. The Company continues to invest in developing the Quebec and Ontario markets. The Company's lead product COLD-fx™ is the top selling inventory item within the cough and cold category according to ACNielsen (52 weeks ending January 21, 2006) and sales continue to outpace other items in the category.
- Salaries and benefits and stock-based compensation expense increased by \$0.2 million. Additional employees were hired in sales, operations, research and administration, increasing wages by \$191 thousand from the same quarter last year. The stock option expense increased by \$33 thousand with an additional grant of 200,000 options in June.
- Administration, occupancy and insurance costs increased by \$0.3 million. These costs were related to an increased number of employees in expanded logistics, administration, operations and science and regulatory related activities. Increased rent and relocation of the science team into the current location this quarter also contributed to the higher costs. Additional staff was hired to prepare for entry into the U.S. market.



CV Technologies Inc.

Quarterly Report for the Three Month Period Ended

June 30, 2006

- Clinical studies and research and development expenses for the third quarter increased by \$0.3 million over the same quarter of last year. Costs were incurred in clinical research and development associated with ongoing studies. The Company is continuing its clinical trial in collaboration with Capital Health of Edmonton and the University of Alberta and commenced a multi-centre clinical trial involving seniors. In the past twelve months, the Company expanded its research staff and capacity to develop new products, manage intellectual property and manage the regulatory environment requirements associated with its products (included in salaries and wages above).

Income taxes recovered were \$663 thousand (2005 – nil) resulting from the quarterly loss. Due to the likelihood of recoverability, the Company set up future tax assets for Scientific Research & Experimental Development expenditures carried forward and temporary timing at the end of fiscal year 2005. The tax losses carried forward reduce income taxes payable.

Summary of Quarterly Results

(in thousands)

Fiscal year 2006	1st Quarter Dec 31, 2005	2nd Quarter Mar 31, 2006	3rd Quarter Jun 30, 2006	4th Quarter Sep 30, 2006	Year to date 2006
Revenue	18,940	10,915	3,242		33,097
Gross margin	13,414	8,253	2,220		23,887
Gross margin %	70.8%	75.6%	68.5%		72.2%
Earnings (loss) after tax	4,416	987	(1,772)		3,631
Earnings (loss) per share – Basic	\$0.04	\$0.01	(0.02)		\$0.04
Earnings (loss) per share – Diluted	\$0.04	\$0.01	(0.02)		\$0.03
Total assets	32,319	34,277	33,545		33,545
Total liabilities	7,458	7,331	7,737		7,737
Fiscal year 2005	1st Quarter Dec 31, 2004	2nd Quarter Mar 31, 2005	3rd Quarter Jun 30, 2005	4th 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%
Earnings (loss) after tax	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	1st Quarter Dec 31, 2003	2nd Quarter Mar 31, 2004	3rd Quarter Jun 30, 2004	4th 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%
Earnings (loss) after tax	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	1,898	1,503	2,846	2,846

Research and development expenses

In May, the Company announced the results of a collaborative study with McGill University, Montreal Quebec investigating 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 study investigated the potential of CVT-E002 to ameliorate leukemia caused by viral infection. The positive results supported the hypothesis that CVT-E002 may have potential as a cancer therapy and may also support the immune system during cancer treatment.



The study, launched in November 2004, was led by Dr. Sandra Miller, a professor in the Department of Anatomy and Biology in the Faculty of Medicine at McGill University. The Company is in the early stages of investigating CVT-E002 use in cancer treatments. CV Technologies Inc. has a U.S. patent for formulation and for many preventative, immune-related, therapeutic applications such as cold and flu infections, hepatitis, HIV, and primary and supportive cancer therapy. The National Research Council (NRC) - Industrial Research Assistance Program (IRAP) has provided funding for the project.

In October 2005, the Company commenced a clinical study involving healthy seniors in Edmonton, Toronto and Vancouver to test the effects of COLD-fx™ on influenza and cold viral infections. Edmonton's Medical Officer of Health, Dr. Gerald Predy, heads the national study and is collaborating with internationally recognized influenza expert and Head of Geriatrics at the University of British Columbia and Providence Health Care, Dr. Janet McElhaney, as well as infectious disease expert Dr. Andrew Simor, Head of Microbiology at Sunnybrook and Women's College Health Sciences Centre in Toronto. The study is on-going.

Corporate Update

In April, the Board approved management's strategy and plans to enter the U.S. selling COLD-fx as a New Dietary Ingredient ("NDI"). Discussions are under way with retailers and drug chains to place product on the shelves for the fall season. The Company received clearance from the U.S. Food and Drug Administration ("FDA") to sell COLD-fx™ in the U.S. as a New Dietary Ingredient. The Company plans to ultimately seek U.S. FDA approval for the active ingredient of COLD-fx™ as an OTC drug for the prevention or reduction of the risk of cold and flu by conducting Phase III clinical trials.

To execute international strategy, a new wholly owned subsidiary, fx Life Sciences International GmbH (fx Life Sciences), based in Switzerland was formed. fx Life Sciences was established to supply manufactured products into international markets. This approach protects the intellectual property and goodwill in Canada and provides a more flexible supply model for international manufacturing and distribution of finished products.

COLD-fx Pharmaceuticals USA Inc., a wholly owned Delaware Corporation headquartered in the Chicago area, was established to focus on distribution, sales and customer service to retailers and major drug chains within the U.S. marketplace.

In June, the Company provided notice to Centaur Pharmaceuticals that it will end its participation in the joint venture, Vetex Inc. The Company currently has a 60% interest. In addition, CV Technologies Inc. is in the process of winding up ChemBioPrint Asia Limited, which is inactive.

On June 9, 2006 Bruce Buchanan resigned as a Board Director for personal and family health reasons. Mr. Buchanan will continue to be available to the Company as an adviser to the Board.

Internal Controls in Financial Reporting

The Enterprise Risk Management Committee (a subcommittee of the Audit Committee) oversees the project to complete a risk assessment and review of the Company's internal controls over financial reporting to meet the requirements under MI 52-109. The Committee provides regular updates to the Audit Committee and Board. At the end of the third quarter, the design and documentation of general controls



over taxation, capital assets, and equity were completed. The design and documentation of controls over sales and receivables and control environment are under way. Remediation of identified gaps is under way and is expected to carry into fiscal 2007. The Company will continue to design, implement and test controls in the significant financial reporting cycles during the remainder of the year with implementation, testing and refinement continuing into 2007.

The Enterprise Risk Management Committee and Management are pleased with the progress achieved to date and improvements occurring in design and implementation of controls over financial reporting and disclosures.

The Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the Company's disclosure controls and procedures, and intend to so certify, according to MI 52-109. The CEO and CFO have evaluated the design effectiveness of the Company's disclosure controls and procedures and have concluded that they provide management with a reasonable level of assurance that the information the Company is required to disclose on a continuous basis in annual and interim filings and other reports is recorded, processed, summarized and reported or disclosed on a timely basis as required. This process is frequently reviewed and refined.

Notwithstanding the foregoing, no assurance can be made that our disclosure controls and procedures will detect or prevent all failures of people within the Company to disclose material information otherwise required to be set forth in the Company's reports.

Subsequent Events

On July 11, 2006 CVT Capital Inc., wholly owned subsidiary and property-management company, entered into an arrangement to finance the construction of a 28,320 square foot building in Edmonton to provide office space and a research centre. The building will be located on a 4.6 acre parcel of land leased by the Company under Edmonton Economic Development Corporation's Biotechnology Lease Program. Construction is under way with completion scheduled for the middle of 2007. The land lease term is 10 years, renewable for a second term of 10 years, and has an option to purchase. The cost of the project is estimated to be \$9.5 million, with financing of \$4.7 million in bank debt.

On July 24, 2006 the Company completed financing arrangements on a demand operating line to finance receivables and inventory for CV Technologies Inc. and its subsidiaries. The maximum credit line available was from \$7.5 to \$15 million, margining limits.

Risks and Uncertainties

The Company is in the early growth stage with its lead natural health products, COLD-FX™, REMEMBER-FX™ and CELL-FX™. In order to gain a successful market share, the Company will be required to increase expenditures for marketing, advertising and public awareness programs. Future success will be dependent on these activities, together with the effectiveness and safety of the Company's products, regulatory approval for its products and the degree of patent protection afforded to particular products and seasonality of demand for its products. The Company maintains product liability insurance; however, it is possible that this coverage will not provide full protection against all risks. The Company 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. Certain risks exist in the timing of regulatory reviews, filings and approvals, including the Company's ability to commercialize products in its pipeline.

The Company intends to grow its operations internationally and will have activities in the United States and Switzerland. Transactions will be denominated in U.S. dollars and Swiss francs, in addition to Canadian dollars. The Company will face foreign currency exposure on the translation of operations in the United States and Switzerland to the Canadian dollar. The Company currently does not utilize hedging instruments (forwards, futures or options) to manage currency risk. In expanding international activity, foreign currency exposure is expected to increase and the Company may use hedging instruments.

The Company is exposed to interest rate fluctuations. The Company's investment strategy of cash surpluses is protection of principal. As such investments are made on high quality short-term deposits, Schedule "A" banks in the form of term deposits and bankers acceptances. With borrowings, the Company would be exposed to Canadian dollar prime rate. The Company currently does not utilize hedging instruments (swaps) to manage interest rate risk.

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.

Critical Accounting Policies and Estimates

Critical accounting policies and estimates are those policies, assumptions and estimates most important in the preparation of the Company's consolidated financial statements. Selection of policies requires management's subjective and complex judgment from many alternatives and estimates involve matters that are inherently uncertain. Management believes that those policies, assumptions and estimates are reasonable, based on the information available. Those policies, assumptions and estimates affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses during the period represented. Since September 30, 2005, none of the Company's critical policies has changed significantly, except as follows:

Stock-based compensation. The estimate of forfeiture rate of options was reduced from 15% to nil. The change in estimate was recorded in the second quarter.

Capitalized interest. The Company has modified its capitalization policy to include interest incurred on the construction of the related asset.

Outlook

The third quarter of fiscal 2006 showed quarter over quarter growth of 14%. Management will continue its targeted marketing and commercialization approach of its products in the Canadian market place, in particular Ontario and Quebec. To attain this objective, the Company will increase staff, sales and marketing, distribution and productivity and quality control activities. Management will work to enhance demand for REMEMBER-fX™ and CELL-fX™. Management will strive to continue to build sales and profits through effective brand management, targeted sales and marketing efforts, public relations activities, focusing on operational excellence in cost management and expanding its supply chain management to meet growing demand and expand awareness and sales of its products.



In the fourth quarter, management will continue to improve consumer awareness and education of healthcare professionals to fully develop its Canadian business and to focus on a strategy of educating consumers and building awareness of the year-round preventative use of COLD-fX™. Management will execute its plans to achieve its international growth objectives for the United States with COLD-fX™ which has been approved as a New Dietary Ingredient. With the recent publication in the Canadian Medical Association Journal of a study on the active ingredient of COLD-fX™ on the prevention and relief of upper respiratory infections, awareness of COLD-fX™ has spread internationally. The agreement with Mark Messier to act as a spokesperson for COLD-fX™ will assist U.S. marketing efforts.

The Company plans to ultimately seek U.S. FDA approval for the active ingredient of COLD-fX™ as an OTC drug for the prevention or reduction of the risk of cold and flu by conducting Phase III clinical trials. FDA approval would allow the Company to make strong and specific medical claims and afford label exclusivity. This strategy will enhance product differentiation from the competition.

Management is committed to making the Company's products strong performers within their categories, and is confident that in 2006 the Company will continue to prove its leadership in the discovery and commercialization of science-based natural therapeutics for health maintenance and disease prevention, and will continue to be a well-recognized and respected supplier to consumers and the natural health products industry.

