

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

Nine month period ended June 30, 2007

**CV Technologies Inc.**

**Consolidated Statements of (Loss) Earnings and  
Comprehensive (Loss) Earnings**

(Unaudited)

	Three month period ended June 30		Nine month period ended June 30	
	2007	2006	2007	2006
Product sales	\$ 3,214,693	\$ 3,241,775	\$ 33,679,053	\$ 33,097,015
Cost of goods sold	1,300,072	1,022,026	9,485,353	9,209,462
	<u>1,914,621</u>	<u>2,219,749</u>	<u>24,193,700</u>	<u>23,887,553</u>
Operating expenses				
Research and development	1,225,105	562,840	2,676,535	2,209,779
Salaries and employee benefits	1,198,355	754,967	3,895,141	2,198,151
Contracting, consulting and professional fees	814,200	1,022,023	3,895,739	2,527,778
Administration, occupancy and insurance	678,966	596,235	1,987,248	1,753,624
Advertising and marketing	529,983	1,052,865	15,209,420	5,712,271
Amortization of deferred development costs	90,400	90,400	271,200	271,200
Amortization of patents, registered trademarks and property and equipment	79,863	86,355	286,310	215,506
Stock-based compensation	28,792	587,653	1,273,704	2,104,576
Interest and bank charges	7,949	22,374	62,669	37,374
Bad debts (recovery)	(24,116)	1,377	29,012	13,650
(Gain) loss on foreign exchange (Note 17)	(821,071)	24,847	(430,172)	55,135
	<u>3,808,426</u>	<u>4,801,936</u>	<u>29,156,806</u>	<u>17,099,044</u>
(Loss) earnings before other revenue, and expense and income taxes	<u>(1,893,805)</u>	<u>(2,582,187)</u>	<u>(4,963,106)</u>	<u>6,788,509</u>
Other revenue and expense				
Interest revenue	54,359	154,285	268,687	334,250
Other items	31,757	(617)	23,049	(1,215)
	<u>86,116</u>	<u>153,668</u>	<u>291,736</u>	<u>333,035</u>
(Loss) earnings before income taxes	<u>(1,807,689)</u>	<u>(2,428,519)</u>	<u>(4,671,370)</u>	<u>7,121,544</u>
Income taxes				
Current (recovery) (Note 18)	(661,995)	(663,408)	4,113,300	2,334,626
Future (Note 18)	725,578	7,062	(33,525)	1,155,915
	<u>63,583</u>	<u>(656,346)</u>	<u>4,079,775</u>	<u>3,490,541</u>
Net (loss) earnings and comprehensive (loss) earnings	<u>\$ (1,871,272)</u>	<u>\$ (1,772,173)</u>	<u>\$ (8,751,145)</u>	<u>\$ 3,631,003</u>
(Loss) earnings per share (Note 14)				
Basic (loss) earnings per share	\$ (0.02)	\$ (0.02)	\$ (0.08)	\$ 0.04
Diluted (loss) earnings per share	\$ (0.02)	\$ (0.02)	\$ (0.08)	\$ 0.03

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	
	2007	2006	2007	2006
Deficit, beginning of period	\$ (12,258,252)	\$ (614,219)	\$ (5,378,379)	\$ (6,017,395)
Net (loss) earnings	<u>(1,871,272)</u>	<u>(1,772,173)</u>	<u>(8,751,145)</u>	<u>3,631,003</u>
Deficit, end of period	<u>\$ (14,129,524)</u>	<u>\$ (2,386,392)</u>	<u>\$ (14,129,524)</u>	<u>\$ (2,386,392)</u>

See accompanying notes to the consolidated financial statements

## CV Technologies Inc. Consolidated Balance Sheets

	June 30, 2007 (Unaudited)	September 30, 2006 (Audited) Restated
<b>Assets</b>		
Current		
Cash and cash equivalents (Note 3)	\$ 2,765,232	\$ 7,913,281
Accounts receivable	1,271,801	6,707,356
Inventory (Note 4)	18,696,782	18,425,505
Prepaid expenses and deposits	514,135	1,199,524
Future income taxes (Note 18)	767,414	1,001,590
	24,015,364	35,247,256
Patents and registered trademarks (Note 5)	797,715	873,730
Property, plant and equipment (Note 6)	8,901,208	3,192,172
Deferred development costs (Note 2)	904,003	1,175,204
Prepaid intra-group tax asset (Note 7)	2,488,007	2,643,506
	\$ 37,106,297	\$ 43,131,868
<b>Liabilities</b>		
Current		
Accounts payable and accruals	\$ 8,526,908	\$ 11,600,073
Customer deposits on product shipped with right-of-return (Note 9)	10,929,255	1,773,559
Current income taxes payable	564,670	5,233,698
Current portion of obligations under capital leases (Note 10)	3,523	14,114
Current portion of lease inducements	3,923	3,923
Future income taxes (Note 18)	-	237,347
	20,028,279	18,862,714
Future income taxes (Note 18)	82,444	112,800
Deferred revenue (Note 11)	180,000	150,000
Obligations under capital leases (Note 10)	505,332	471,298
Lease inducements	7,501	10,444
	20,803,556	19,607,256
<b>Shareholders' Equity</b>		
Share capital (Note 12)	22,845,648	22,433,106
Contributed surplus (Note 13)	7,586,617	6,469,885
Deficit	(14,129,524)	(5,378,379)
	16,302,741	23,524,612
	\$ 37,106,297	\$ 43,131,868

Commitments and contingencies (Notes 20 and 24)

## CV Technologies Inc. Consolidated Statements of Cash Flows

	Three months ended June 30		Nine months ended June 30	
	2007	2006	2007	2006
<b>Operating</b>				
Net (loss) earnings	\$ (1,871,272)	\$ (1,772,173)	\$ (8,751,145)	\$ 3,631,003
Items not affecting cash				
Stock-based compensation	28,792	587,653	1,273,704	2,104,576
Future income taxes	725,578	7,062	(33,525)	1,155,915
Amortization of deferred development costs	90,400	90,400	271,200	271,200
Amortization of patents, registered trademarks and property and equipment	79,863	86,355	286,310	215,506
Loss on disposal of patents and registered trademarks	26,883	-	26,883	-
Amortization of prepaid intra-group tax asset	51,833	-	155,499	-
Lease inducement	(981)	(981)	(2,943)	585
	(868,904)	(1,001,684)	(6,774,017)	7,378,785
Change in non-cash operating working capital				
Accounts receivable	2,842,877	893,458	5,435,555	5,557,509
Inventory	1,522,539	(4,043,288)	(271,277)	(4,184,677)
Prepaid expenses and deposits	281,016	145,634	685,389	(342,351)
Accounts payable and accruals	(2,375,042)	1,083,791	(3,073,171)	1,812,021
Customer deposits on product shipped with right-of-return	(6,486,887)	-	9,155,696	-
Current income taxes payable	(1,505,042)	(664,374)	(4,669,028)	1,623,568
	(6,589,443)	(3,586,463)	489,147	11,844,855
<b>Financing</b>				
Repayment of obligations under capital leases	(3,466)	(18,159)	(12,476)	(30,266)
Issuance of share capital	52,500	46,800	255,570	232,290
	49,034	28,641	243,094	202,024
<b>Investing</b>				
Purchase of property and equipment	(2,113,326)	(731,374)	(5,900,846)	(1,120,253)
Purchase of patents and registered trademarks	(11,983)	(26,756)	(9,444)	(60,700)
Proceeds from deferred revenue	-	-	30,000	140,000
	(2,125,309)	(758,130)	(5,880,290)	(1,040,953)
(Decrease) increase in cash and cash equivalents	(8,665,718)	(4,315,952)	(5,148,049)	11,005,926
Cash and cash equivalents:				
Beginning of period	11,430,950	21,273,859	7,913,281	5,951,981
End of period	\$ 2,765,232	\$ 16,957,907	\$ 2,765,232	\$ 16,957,907

Supplemental cash flow information (Note 15)

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# CV Technologies Inc.

## Notes to the Interim Consolidated Financial Statements

For the three and nine month periods ended June 30, 2007

(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 Toronto Stock Exchange under the symbol "CVQ". The head office and research centre is located in Edmonton, Alberta, Canada.

The Company has subsidiary companies incorporated and operating in the United States, Switzerland and Canada. COLD-fX Pharmaceuticals (USA) Inc. is incorporated in Delaware, United States with an office in Chicago, Illinois. fX Life Sciences International GmbH is incorporated under the Swiss Code of Obligations with an office in Zug, Switzerland. CVT Capital Inc. is incorporated under the Business Corporations Act (Alberta) with operations in Edmonton, Alberta, Canada.

### 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). The unaudited interim consolidated financial statements use the same accounting policies and methods of application as the audited consolidated financial statements for the year ended September 30, 2006 with exception for the adoption of new CICA standards as noted in the Financial Instruments section below. These unaudited interim consolidated financial statements should be read in conjunction with the restated audited consolidated financial statements for the year ended September 30, 2006.

#### 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, its wholly owned subsidiaries; COLD-fX Pharmaceuticals (USA) Inc., fX Life Sciences International GmbH, CVT Capital Inc. and ChemBioPrint Asia Limited and its 60% joint venture interest in Vet Ex Inc. ChemBioPrint Asia Limited and Vet Ex Inc. are both inactive.

#### 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.

Significant estimates made by management include provisions for customer discounts, allowances and returns, the realizability of future income taxes, useful lives of long-lived assets, the expected future cash flows used in evaluating long-lived assets for impairment, the percentage of completion of contracted service expenditures and stock based compensation fair values. On an ongoing basis, management reviews its estimates to ensure that these estimates appropriately reflect changes in the Company's business and new information as it becomes available. Actual results could differ from the estimates and assumptions used.

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**CV Technologies Inc.**

**Notes to the Interim Consolidated Financial Statements**

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For the three and nine month periods ended June 30, 2007

**(Unaudited)**

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

**Translation of foreign currencies**

The financial statements of the Company's operations are reported in Canadian dollars. The US dollar is the currency of measurement for the Company's investment in fX Life Sciences International GmbH and COLD-fX Pharmaceuticals (USA) Inc. These subsidiaries are integrated foreign operations which are translated using the temporal method, whereby monetary assets and liabilities are translated at the exchange rate prevailing at the balance sheet date, non-monetary assets and liabilities are translated at the rate in effect when the assets were acquired or liabilities were assumed. Under the temporal method, revenue and expenses are translated at the average exchange rates in effect on the transaction date with exception of amortizing and expensing non-monetary items such as inventory, prepaid expenses and deposits, property and equipment and patents and trademarks. These items are translated at the exchange rate in effect when the assets were acquired. The resulting exchange gains or losses are included in the determination of earnings.

**Revenue recognition**

Revenue from the sale of goods is recognized when all of the following criteria have been met: 1) evidence of a sales arrangement exists; 2) title of goods has passed to the customer, which is generally at the time the goods are delivered; 3) the sales price is fixed and determinable; and 4) returns can be reasonably estimated or the right of return has expired.

Provisions for estimated returns are made when revenue is recognized. When future returns cannot be reasonably estimated, revenue is not recognized until the risk of return has been substantially eliminated. Product shipped where the risk of return cannot be estimated is included in inventory as "product shipped with right-of-return" (see Note 4). If customer payment has been received for product shipped with right-of-return, the Company records the payment as a customer deposit (see Note 9).

Customer discounts, rebates and incentive allowances which do not result in a sufficiently separable benefit from the sale are recorded as a reduction in revenue. For discounts, rebates and incentive allowances to be sufficiently separable from the sale of the goods, the benefit must be identifiable, available from a party other than a purchaser of the Company's products and the fair value must be reasonably estimated. If discounts, rebates and/or incentive allowances result in negative revenue for a specific customer since inception of the overall consolidated relationship, the amount of the cumulative shortfall is classified as an advertising and marketing expense.

Customer discounts, rebates and incentive allowances are recognized at the later of the date on which the Company recognizes the related revenue or the date the Company offers the discount, rebate or incentive. If the related revenue is not recognized and the discount is not recoverable in the event of return, the discount is recognized at the later of the date on which the specific activity occurs or the customer recognizes the discount, rebate or incentive allowance.

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## CV Technologies Inc.

### Notes to the Interim Consolidated Financial Statements

For the three and nine month periods ended June 30, 2007

(Unaudited)

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

##### Cash and cash equivalents

Cash includes balances with banks, net of outstanding cheques, and short term liquid investments with maturities of less than 90 days.

##### Inventory

Inventories of finished goods and product shipped with right-of-return are valued at the lower of cost or net realizable value. For product shipped with right-of-return, displays and packaging materials normally included in the value of the inventory, which the Company does not expect to recover in the event of return, are expensed when the product is initially shipped to the customer. Inventories of work in progress, raw materials and supplies are valued at the lower of cost or replacement value. Costs include direct materials and labor and are determined on a weighted average basis. Inventory is reviewed for obsolescence on an item-by-item basis, obsolete inventory is written off to cost of goods sold.

##### 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, plant and equipment

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

Lab equipment	20%, declining balance
Computer hardware	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

Additions and improvements are capitalized while repairs and maintenance are charged to expense as incurred. Costs are capitalized on properties which are under development, including all expenditures incurred in connection with the acquisition, development and construction. These expenditures consist of all direct costs, interest on debt that is related to these assets and certain administrative expenses. Amortization of these assets commences when the property is complete and available for use.

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**CV Technologies Inc.**

**Notes to the Interim Consolidated Financial Statements**

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For the three and nine month periods ended June 30, 2007

**(Unaudited)**

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

**Deferred development costs**

Development costs are capitalized for clearly defined, technically feasible technologies which management intends on producing and promoting to an identified future market with existing or estimated future resources. The costs deferred are for clinical studies related to the development of Parathyroid Hypertensive Factor technology related to cardiovascular therapies. Amortization of development costs commenced at the start of commercial production of the product during the fiscal year ended September 30, 2005. The costs are amortized on a straight-line basis over a 5 year period based on recoverability of unamortized deferred development costs. During the three and nine month periods ended June 30, 2007, \$90,400 and \$271,200, respectively (2006 - \$90,400 and \$271,200) was expensed as amortization on deferred development costs.

The recoverability of unamortized deferred development costs are evaluated, at least on an annual 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 associated with these deferred costs would not be sufficient to recover their carrying value, the excess of the carrying value over estimated recoverable amount will be recognized as an impairment loss and charged to expense in the period that impairment has been determined.

**Prepaid intra-group tax assets**

When an asset is transferred between enterprises within the consolidated group of companies resulting in prepayment of taxes by the transferor, the resulting expenses are recorded as a prepaid intra-group tax asset and amortized over the useful life of the transferred asset.

**Research and development**

Research and development expenditures (except for property, plant and equipment) are charged to expenses as incurred unless a development project meets the Canadian generally accepted accounting criteria for deferral and amortization. Research and development costs include the following direct operating expenses: salaries and benefits, administration, occupancy and insurance, and contracting, consulting and professional fees.

**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 inducement**

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.

**Notes to the Interim Consolidated Financial Statements**

For the three and nine month periods ended June 30, 2007

**(Unaudited)**

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

**Financial instruments**

On October 1, 2006, the Company adopted the following Canadian Institute of Chartered Accountants (CICA) accounting recommendations for the recognition, presentation and disclosure of financial instruments:

- CICA Handbook Section 3855 "*Financial Instruments – Recognition and Measurement*"
- CICA Handbook Section 3862 "*Financial Instruments – Disclosures*"
- CICA Handbook Section 3863 "*Financial Instruments – Presentation*"
- CICA Handbook Section 1530 "*Comprehensive Income*"
- CICA Handbook Section 3251 "*Equity*"

Under the new standards, on acquisition, all financial assets must be classified as held-to-maturity, loans and receivables, held-for-trading or available-for-sale and at inception, all financial liabilities must be classified as held-for-trading or other. The Company has classified cash and cash equivalents as held for trading; accounts receivable is classified as loans and receivables; accounts payable and obligations under capital leases have been classified as other liabilities.

All financial instruments are initially recorded on the balance sheet at fair value and if classified as loans and receivables or held for trading, changes in fair value are included in earnings. For those instruments classified as available-for-sale and for derivative financial instruments designated as hedges, changes in fair value will be included in other comprehensive income. Other comprehensive income and its components are presented in a separate financial statement and included directly in equity as accumulated other comprehensive income. The adoption of section 1530 did not have an impact on the financial statement presentation for the three and nine month periods ended June 30, 2007.

Under section 3855, transaction costs incurred upon the issuance of debt instruments or modification of financial liabilities are now deducted from the related liability and are amortized using the effective interest method over the expected life of the liability. The adoption of this standard did not have an impact on the consolidated financial statements.

a) Fair value

The Company's financial instruments include cash, accounts receivable, accounts payable, customer deposits on products shipped with right-of-return and obligations under capital leases. The fair value of financial instruments represents the amounts that would have been received from or paid to counterparties, calculated at the reporting date, to settle these instruments. The fair values of all financial instruments approximate their carrying values because of the short maturities of these instruments. The fair values of other financial instruments reflect the Company's best estimate and are based on the Company's valuation techniques or models to estimate fair values.

b) Interest rate risk

Finance facilities 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.

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**CV Technologies Inc.**

**Notes to the Interim Consolidated Financial Statements**

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For the three and nine month periods ended June 30, 2007

**(Unaudited)**

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

**Financial instruments (cont'd)**

c) Foreign currency risk

The Company has assets and liabilities 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 currently use derivative instruments to reduce its exposure to foreign currency risk.

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 evaluation 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. Included in accounts receivable is an allowance for doubtful accounts of \$85,276 at June 30, 2007 (September 30, 2006 - \$59,232).

e) Liquidity risk

The Company's exposure to liquidity risk is dependent on the sale of inventory, collection of accounts receivable or raising of funds to meet commitments and sustain operations. The Company manages liquidity risk by management of working capital, cash flows and the availability of borrowing facilities.

**Impairment of long-lived assets**

Impairment of non-monetary long-lived assets, including property, plant 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. When the carrying amount of the asset is less than the undiscounted future cash flows, the asset is measured at its fair value and presented in the balance sheet at the lower of the fair value or carrying amount.

**(Loss) earnings per share**

The computation of basic (loss) earnings per share has been calculated using the weighted average number of common shares outstanding during the year. Diluted (loss) earnings per share reflects the potential dilution that would occur if stock options and warrants were exercised. 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 Interim Consolidated Financial Statements**

For the three and nine month periods ended June 30, 2007

(Unaudited)

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

**Income taxes**

Income taxes have been accounted for using the liability method of tax allocation. Under this method, future tax assets and liabilities are determined based on differences between the accounting and income tax bases of an asset or liability. These are measured using the substantively enacted tax rates, regulations and laws of Canadian, United States and Swiss tax jurisdictions that are anticipated to be in effect when the differences are expected to reverse.

**Stock-based compensation**

The Company recognizes the compensation cost of stock options granted to employees, officers, directors and non-employees. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model. The fair value of granted options is expensed over the vesting period with a corresponding increase to contributed surplus.

**3. Cash and cash equivalents**

At June 30, 2007, cash and cash equivalents include \$619,600 (September 30, 2006 - \$Nil) of restricted cash to secure two letters of credit under the Company's financing facilities (see Note 8). Subsequent to June 30, 2007, the restricted cash was released.

**4. Inventory**

Inventory is comprised of the following:

	June 30, <u>2007</u>	September 30, <u>2006</u>
Finished goods	\$ 10,343,213	\$ 10,587,148
Work-in-progress	3,896,091	4,491,649
Supplies	1,644,932	1,557,316
Raw materials	1,506,391	302,781
Product shipped with right of return	<u>1,306,155</u>	<u>1,486,611</u>
	<u>\$ 18,696,782</u>	<u>\$ 18,425,505</u>

**5. Patents and registered trademarks**

<u>June 30, 2007</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Patents	\$ 1,248,825	\$ 556,900	\$ 691,925
Registered trademarks	<u>191,520</u>	<u>85,730</u>	<u>105,790</u>
	<u>\$ 1,440,345</u>	<u>\$ 642,630</u>	<u>\$ 797,715</u>

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

For the three and nine month periods ended June 30, 2007

(Unaudited)

**5. Patents and registered trademarks (cont'd)**

September 30, 2006

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Patents	\$ 1,258,660	\$ 515,566	\$ 743,094
Registered trademarks	<u>205,472</u>	<u>74,836</u>	<u>130,636</u>
	<u>\$ 1,464,132</u>	<u>\$ 590,402</u>	<u>\$ 873,730</u>

During the three and nine month periods ended June 30, 2007, the Company recorded patents and trademarks amortization expense of \$18,879 and \$58,581 respectively (2006 - \$18,823 and \$57,558).

**6. Property and equipment**

June 30, 2007

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Building under construction	\$ 7,383,761	\$ -	\$ 7,383,761
Land	490,812	-	490,812
Lab equipment	436,541	100,392	336,149
Computer hardware	394,225	122,034	272,191
Furniture and equipment	379,264	144,482	234,782
Computer software	284,161	149,270	134,891
Leasehold improvements	94,879	87,287	7,592
Equipment under capital leases	52,434	32,057	20,377
Automobiles	<u>44,788</u>	<u>24,135</u>	<u>20,653</u>
	<u>\$ 9,560,865</u>	<u>\$ 659,657</u>	<u>\$ 8,901,208</u>

September 30, 2006

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Building under construction	\$ 1,678,281	\$ -	\$ 1,678,281
Land	467,162	-	467,162
Lab equipment	334,076	53,428	280,648
Computer hardware	355,401	77,042	278,359
Furniture and equipment	349,866	104,543	245,323
Computer software	260,563	95,955	164,608
Leasehold improvements	81,146	53,977	27,169
Equipment under capital leases	52,434	28,461	23,973
Automobiles	<u>44,788</u>	<u>18,139</u>	<u>26,649</u>
	<u>\$ 3,623,717</u>	<u>\$ 431,545</u>	<u>\$ 3,192,172</u>

During the three and nine month periods ended June 30, 2007, the Company recorded property and equipment amortization expense of \$60,984 and \$227,729 respectively (2006 - \$67,532 and \$157,948).

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## CV Technologies Inc.

### Notes to the Interim Consolidated Financial Statements

For the three and nine month periods ended June 30, 2007

(Unaudited)

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#### 7. Prepaid intra-group tax asset

During the 2006 fiscal year, international rights and proprietary knowledge were transferred to a foreign subsidiary resulting in prepayment of income taxes in the jurisdiction of the transferor. This prepaid intra-group tax asset will be expensed over the 12.9 year useful life of the transferred asset. During the three and nine month period ended June 30, 2007, the Company has recognized \$51,833 and \$155,499 (2006 - \$Nil and \$Nil) of this expense.

#### 8. Financing facilities

The Company is in the process of finalizing the demand operating line of credit with a maximum of \$10,000,000 by registering the associated collateral security. The demand operating line of credit is based on 75% of accounts receivable plus 50% of finished goods inventory for the period of September to February or 65% of finished goods inventory for the period of March to August to a maximum limit of \$6.0 million. As part of the operating line facility the Company has the ability to issue up to \$1 million of letters of guarantees. Interest under the operating line facility is based on the Bank of Nova Scotia prime rate or Bankers' Acceptance rate plus 1.5% per annum.

In addition, the Company will have available a \$6,175,000 three year term financing loan for the construction of the new headquarters and research centre on land held under a capital lease. The facility bears interest at the Bank of Nova Scotia prime rate plus 0.75% per annum; the interest rate can also be fixed by the Company.

The collateral security lodged by the Company to support both financing facilities is a General Security Agreement constituting a first ranking security interest in all personal property of the Company, a Collateral Mortgage constituting a first fixed charge on the Company's headquarters and research centre on the subleased land and a guarantee provided by an insider of the Company, secured by common shares at a cost of 0.5% per month commencing July 16<sup>th</sup>, 2007.

At June 30, 2007, the Company had two standby letters of credit in the amount of \$124,000 and \$495,600 which will remain in effect respectively until December 31, 2007 and December 1, 2008. These letters of credit were secured under a cash collateral agreement; subsequent to June 30, 2007, the secured cash collateral was released.

#### 9. Customer deposits on product shipped with right-of-return

The Company has received customer deposits totaling \$10,929,255 (September 30, 2006 - \$1,773,559) for product shipped with right-of-return. At June 30, 2007, one customer represented \$6,785,399 or 62.1% (September 30, 2006 - two customers represented \$1,503,689 or 84.78%) of the total customer deposits. The Company has received inventory returns requiring refund of \$4.6 million and has authorized additional returns of approximately \$2.7 million.

If the risk of product return is substantially eliminated, the revenue from the product shipment is recognized and liability for the customer deposit is eliminated. If the product is returned, the customer is entitled to a refund of the deposit. There is no certainty on the amount of deposits that will be recognized as revenue or require refund.

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

For the three and nine month periods ended June 30, 2007

**(Unaudited)**

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**10. Obligations under capital leases**

The following is a schedule by fiscal year of future minimum lease payments together with the balance of the obligations under capital leases:

2007	\$ 1,518
2008	2,897
2009	1,736
2010	215
2011 and thereafter	<u>1,155,250</u>
Total minimum lease payments	1,161,616
Less: amounts representing interest at an imputed rate of 10%	<u>652,761</u>
Balance of obligations under capital leases	508,855
Less: current portion	<u>3,523</u>
Long term balance of obligations under capital leases	<u>\$ 505,332</u>

**11. Deferred revenue**

Deferred revenue at June 30, 2007 consists of deposits totalling \$180,000 (September 30, 2006 - \$150,000) received from two customers. These deposits require a guaranteed volume of inventory to be available to these customers at any given time. These deposits will be recognized as revenue when the customers draw the inventory.

**12. 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, 2005	101,188,171	\$ 21,936,227
Exercise of options	1,585,169	331,041
Recognition of fair value of options exercised	<u>-</u>	<u>165,838</u>
Balance, September 30, 2006	102,773,340	\$ 22,433,106
Exercise of options	1,127,666	255,570
Recognition of fair value of options exercised	<u>-</u>	<u>156,972</u>
Balance June 30, 2007	<u>103,901,006</u>	<u>\$ 22,845,648</u>

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

For the three and nine month periods ended June 30, 2007  
**(Unaudited)**

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

**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 22,170,442 common shares.

As at June 30, 2007 there are 10,242,935 (September 30, 2006 – 14,770,601) stock options outstanding, which are exercisable at prices ranging from \$0.15 to \$4.32 and expire between May 5, 2008 and December 14, 2011. A summary of the status of the Company's stock options for the period presented and changes during the periods ended on those dates are as follows:

June 30, 2007

	<u>Stock Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of year	14,770,601	\$ 1.26
Granted	100,000	2.98
Forfeited/cancelled	(3,500,000)	2.84
Exercised	<u>(1,127,666)</u>	<u>0.23</u>
Outstanding, end of period	<u>10,242,935</u>	<u>\$ 0.85</u>
Exercisable, end of period	<u>9,086,935</u>	<u>\$ 0.57</u>

September 30, 2006

	<u>Stock Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of year	16,180,770	\$ 1.11
Granted	80,000	3.98
Granted subject to shareholder approval	255,000	3.45
Forfeited/cancelled	(160,000)	1.26
Exercised	<u>(1,585,169)</u>	<u>0.21</u>
Outstanding, end of year	<u>14,770,601</u>	<u>\$ 1.26</u>
Exercisable, end of year	<u>10,731,601</u>	<u>\$ 0.64</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.

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

For the three and nine month periods ended June 30, 2007

**(Unaudited)**

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

**Stock options (cont'd)**

The following table summarizes information about the stock options outstanding at June 30, 2007:

<u>Exercise Price</u>	<u>Number Outstanding</u>	<u>Remaining Contractual Life (years)</u>	<u>Number Exercisable</u>
\$ 0.15	3,822,492	0.85	3,822,492
0.20	20,000	0.98	20,000
0.25	33,000	1.26	33,000
0.50	250,000	1.97	250,000
0.57	143,000	2.09	143,000
0.71	813,916	1.53	813,936
0.74	3,600,527	1.86	3,600,527
2.62	250,000	3.05	50,000
2.84	895,000	2.68	342,000
2.98	100,000	4.46	-
3.29	200,000	3.95	-
3.42	10,000	3.67	2,000
4.04	55,000	4.19	-
4.32	50,000	3.41	10,000
	<hr/> 10,242,935 <hr/>		<hr/> 9,086,955 <hr/>

**13. 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.

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

For the three and nine month periods ended June 30, 2007  
**(Unaudited)**

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

During the period, contributed surplus has changed as follows:

	9 month period ended June 30, <u>2007</u>	Year ended September 30, <u>2006</u>
Balance, beginning of period	\$ 6,469,885	\$ 3,921,586
Stock-based compensation recognition of fair value of stock options granted to:		
- Employees, officers and directors	1,536,921	2,653,024
- Non-employees	85,900	61,113
Forfeiture of options	(349,117)	-
Recognition of fair value of stock options exercised	<u>(156,972)</u>	<u>(165,838)</u>
Balance, end of period	<u>\$ 7,586,617</u>	<u>\$ 6,469,885</u>

Stock based compensation expense is the fair value of granted options, expensed over the estimated life of the option. The fair value of granted options is calculated using the Black-Scholes option pricing model. No options were issued in the three month period ended June 30, 2007. The following table summarizes the assumptions used to calculate the fair value:

	Nine month period ended June 30, 2007	Year end September 30, 2006
Total options granted	100,000	335,000
Weighted average exercise price	\$2.98	\$3.58
Weighted average risk-free interest rate	3.86%	4.14%
Weighted average expected life	5 years	5 years
Weighted average vesting period	5 years	5 years
Weighted average volatility	106.96%	111.52%
Weighted average dividend yield	-	-
Weighted average fair value	\$2.35	\$2.89

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

For the three and nine month periods ended June 30, 2007  
**(Unaudited)**

**14. (Loss) earnings per share**

The following table sets forth the computation of basic and diluted (loss) earnings per share for the following periods:

	Three month period ended June 30		Nine month period ended June 30	
	2007	2006	2007	2006
Numerator for basic (loss) earnings per share	\$ (1,871,272)	\$ (1,772,173)	\$(8,751,145)	\$ 3,631,003
Denominator:				
Weighted average common shares	103,804,852	102,051,582	103,516,297	101,741,085
Dilutive effect of stock options	6,983,423	9,699,362	7,808,157	10,666,887
Denominator for diluted (loss) earnings per share	110,788,275	111,750,944	111,324,454	112,407,972
(Loss) earnings per share				
- Basic	\$ (0.02)	\$ (0.02)	\$ (0.08)	\$ 0.04
- Diluted	\$ (0.02)	\$ (0.02)	\$ (0.08)	\$ 0.03

**15. Supplemental cash flow information**

	June 30, 2007	September 30, 2006
Cash consist of:		
Balances with banks	\$ 3,353,225	\$ 8,209,878
Cheques in transit	(587,993)	(296,597)
	<u>\$ 2,765,232</u>	<u>\$ 7,913,281</u>
Interest paid	<u>\$ 62,669</u>	<u>\$ 60,626</u>
Income taxes paid	<u>\$ 8,663,804</u>	<u>\$ -</u>
Non-cash financing and investing activities:		
Increase of assets under capital leases	<u>\$ 35,920</u>	<u>\$ 467,162</u>

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

For the three and nine month periods ended June 30, 2007  
**(Unaudited)**

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**16. Related party transactions**

During the three month period ended June 30, 2007, Vet Ex Inc. repaid the Company \$37,407 in intercompany loans.

During the fiscal year ended September 30, 2006, the Company paid \$14,914 in supplemental study fees on behalf of Vet Ex Inc. As at September 30, 2006, 60% of this transaction has been eliminated through proportionate consolidation and the remaining balance is included in accounts receivable.

**17. (Gain) loss on foreign exchange**

	Three month period ended June 30		Nine month period ended June 30	
	2007	2006	2007	2006
Loss on foreign currency transactions	\$ 98,202	\$ 24,847	\$ 171,865	\$ 55,135
(Gain) on foreign currency translation	(919,273)	-	(602,037)	-
	<b>\$ (821,071)</b>	<b>\$ 24,847</b>	<b>\$ (430,172)</b>	<b>\$ 55,135</b>

The foreign currency translation adjustment represents net gains or losses on the translation of the net assets and liabilities of integrated foreign operations.

**18. Income taxes**

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

The Company has fully utilized the Scientific Research and Experimental Development pool (2006 - \$1,617,172) and non-refundable SR & ED investment tax credits (2006 - \$700,253) in computing taxable income for the previous year.

**Non-capital loss**

The Company has \$13,892,810 of non-capital losses available which can be carried forward. \$13,849,195 of this benefit has not been recognized in these financial statements; the tax affected value of these losses is \$2,021,468. These losses are available to reduce income taxes in future years and if not utilized, will expire between 2014 and 2027.

## CV Technologies Inc.

### Notes to the Interim Consolidated Financial Statements

For the three and nine month periods ended June 30, 2007

(Unaudited)

#### 18. 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:

	Three month period ended June 30		Nine month period ended June 30	
	2007	2006	2007	2006
Expected income tax expense (recovery) at 33.90% (2006–33.69%)	\$ (612,870)	\$ (864,009)	(1,583,757)	\$ 2,399,248
Increase (decrease) resulting from:				
Non-deductible items	(77,919)	193,790	151,791	717,727
SR&ED adjustments	-	15,620	-	264,469
R&D adjustment	8,695	(14,086)	-	60,821
Other items	(16,991)	(2,939)	(506)	6,772
Intra-group transaction expense	51,833	-	155,500	15,377
Income tax rate adjustment	(10,253)	15,278	(4,750)	26,127
Jurisdictional rate differential on foreign subsidiaries	401,553	-	2,901,523	-
Foreign currency translation adjustment	4,592	-	116,241	-
Jurisdictional rate differential on intercompany profit elimination	(282,270)	-	322,265	-
Change in valuation allowance	597,213	-	2,021,468	-
Income tax expense	<u>\$ 63,583</u>	<u>\$ (656,346)</u>	<u>\$ 4,079,775</u>	<u>\$ 3,490,541</u>

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

For the three and nine month periods ended June 30, 2007

(Unaudited)

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

**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:

	June 30, <u>2007</u>	September 30, <u>2006</u>
Current assets		
Share issue costs	\$ 896	\$ 3,906
Reserves	3,523	4,828
Intercompany profit elimination	624,359	507,893
Deferred revenue with risk of return	124,627	475,201
Non-capital losses carried forward	<u>2,035,477</u>	<u>9,762</u>
	<u>2,788,882</u>	<u>1,001,590</u>
Current liabilities		
Investment tax credits applied	<u>-</u>	<u>(237,347)</u>
Non-current liabilities		
Capital and other assets	<u>(82,444)</u>	<u>(112,800)</u>
Less: valuation allowance	<u>(2,021,468)</u>	<u>-</u>
Net future tax asset	<u>\$ 684,970</u>	<u>\$ 651,443</u>

A valuation allowance is recognized to the extent that recoverability of future tax assets is not considered more likely than not.

**19. Segmented information**

**Geographic information**

Product Sales

	Three month period ended June 30		Nine month period ended June 30	
	2007	2006	2007	2006
Canada	\$ 3,045,160	\$ 3,241,775	\$ 32,719,008	\$ 33,054,237
United States	169,533		960,045	2,241
Other	-		-	40,537
	<u>\$ 3,214,693</u>	<u>\$ 3,241,775</u>	<u>\$ 33,679,053</u>	<u>\$ 33,097,015</u>

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

For the three and nine month periods ended June 30, 2007

**(Unaudited)**

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**19. Segmented information (cont'd)**Property, plant and equipment, patents and trademarks

	June 30, 2007	September 30, 2006
Canada	\$ 8,968,676	\$ 3,290,963
United States	1,072	-
Other	729,175	774,939
	<u>\$ 9,698,923</u>	<u>\$ 4,065,902</u>

**Significant customers**

During the three month period ended June 30, 2007, four (2006 - four) major customers accounted for \$1,760,548 or 54.8% (2006 - \$1,685,854 or 52.0%) of the Company's product sales.

During the nine month period ended June 30, 2007, four (2006 - four) major customers accounted for \$17,792,539 or 52.8% (2006 - \$21,312,475 or 64.4%) of the Company's product sales.

**20. Commitments**

a) The Company has entered into operating lease agreements for premises in Edmonton, Alberta, Canada; Toronto, Ontario, Canada; Zug, Switzerland and Chicago, USA. These leases expire at various dates ranging from October 31, 2007 to September 30, 2010, and for which minimum lease payments total \$894,969.

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

2007	\$ 119,947
2008	370,839
2009	284,183
2010	<u>120,000</u>
Total minimum lease payments	<u>\$ 894,969</u>

b) The Company has entered into contractual obligations related to future advertising and marketing expenditures.

The following is a schedule by fiscal year of future payments associated with these contracts:

2007	\$ 390,692
2008	1,284,812
2009	<u>212,680</u>
	<u>\$ 1,888,184</u>

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

For the three and nine month periods ended June 30, 2007

**(Unaudited)**

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**20. Commitments (cont'd)**

c) The Company has entered into contractual obligations related to future research and development expenditures.

The following is a schedule by fiscal year of future payments associated with these contracts:

2007		\$	94,277	
2008			<u>45,408</u>	
		\$	<u>139,685</u>	

d) The Company has entered into contractual obligations for the construction of the new headquarters and research centre in Edmonton, Alberta, Canada. Estimated total project costs are \$10.5 million with \$7,383,791 incurred to date. Project completion is scheduled for the fall of 2007.

**21. Cyclical nature of business**

The Company's lead product's sales, cost of goods sold and advertising and marketing expenditures are greater in the first, second and fourth quarters of the fiscal year.

**22. 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. On February 13, 2007 the status of the joint venture became inactive.

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>2007</u>	September 30, <u>2006</u>
<b>Assets</b>		
Cash and cash equivalents	\$ <u>-</u>	\$ <u>22,480</u>
<b>Liabilities</b>		
Accounts payable and accruals	\$ <u>77</u>	\$ <u>77</u>

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

For the three and nine month periods ended June 30, 2007

**(Unaudited)**

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**22. Joint venture (cont'd)**

<b>Product sales, expenses and cash flows for the:</b>	Three month period ended June 30		Nine month period ended June 30	
	2007	2006	2007	2006
Expenses				
Research and development	\$ -	\$ 8,948	\$ -	\$ 8,948
Interest and bank charges	6	12	36	30
Net (loss) earnings	<u>\$ (6)</u>	<u>\$ (8,960)</u>	<u>\$ (36)</u>	<u>\$ (8,978)</u>
Cash flows				
Cash flows from operating activities	<u>\$ (6)</u>	<u>\$ (12)</u>	<u>\$ (36)</u>	<u>\$ (30)</u>

**23. Comparative figures**

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

**24. Subsequent events**Cease trade

On July 11, 2007, the Company's stock (TSX:CVQ) resumed trading on the Toronto Stock Exchange. This is following the Securities Commissions in Alberta, Ontario and British Columbia lifting their Cease Trade Orders. The Company fulfilled the conditions of all Cease Trade Orders when it filed restatements on June 14, 2007 of its previously reported consolidated financial statements for the year ended September 30, 2006 and interim consolidated financial statements for the three month period ended December 31, 2006 and when it filed financial statements for the second quarter of 2007 for the three month period ended March 31, 2007.

Class-action lawsuits

As stated in certain recent media reports, on July 20, 2007, a class action lawsuit was issued in the Ontario Superior Court of Justice against the Company and certain officers and directors, Gordon Tallman, Harry Buddle and Jacqueline Shan and the Company's former auditor. The lawsuit was commenced by two shareholders and seeks certification of a class action on behalf of any persons who acquired the Company's securities between December 11, 2006 and March 23, 2007. The lawsuit relates to allegations concerning the Company's audited financial statements for the year ended September 30, 2006, and its interim unaudited financial statements for the first quarter of fiscal 2007. The lawsuit alleges the financial statements for those periods were misleading. An almost identical lawsuit commenced by one shareholder has been filed in the Calgary Court of Queen's Bench

None of the defendants has been served and the matters raised in the claim are, at this stage, unproven allegations that will be vigorously defended. Leave of the Ontario and Alberta courts have not been granted for the claims to proceed as a secondary market securities class action and the claims have not been certified as a class action at this stage.