

CV Technologies Inc.
Consolidated Financial Statements
September 30, 2007

AUDITORS' REPORT

To the Shareholders of
CV Technologies Inc.

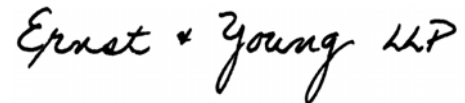
We have audited the consolidated balance sheet of CV Technologies Inc. as at September 30, 2007 and the consolidated statements of (loss) earnings and comprehensive (loss) income, deficit and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The restated consolidated financial statements as at September 30, 2006 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated December 6, 2006, (except as to note 3, which is as of April 30, 2007).

Edmonton, Canada
December 21, 2007

The signature of Ernst & Young LLP is written in a cursive, handwritten style in black ink.

Chartered Accountants

CV Technologies Inc.

Consolidated Balance Sheets

As at September 30	2007	2006
In Canadian dollars		As restated (note 3)
Assets		
Current		
Cash and cash equivalents	\$ 2,702,572	\$ 7,913,281
Accounts receivable	6,442,418	6,707,356
Inventory (note 4)	8,891,706	18,425,505
Prepaid expenses and deposits	391,266	1,199,524
Current income taxes receivable	721,099	-
Future income taxes (note 20)	-	1,001,590
	<u>19,149,061</u>	<u>35,247,256</u>
Inventory, non-current (note 4)	7,351,019	-
Patents and registered trademarks (note 5)	893,849	873,730
Property, plant and equipment (note 6)	11,132,142	3,192,172
Deferred development costs (note 7)	-	1,175,204
Prepaid intra-group tax asset (note 8)	2,436,174	2,643,506
Future income taxes (note 20)	345,548	-
	<u>\$ 41,307,793</u>	<u>\$ 43,131,868</u>
Liabilities and Shareholders' Equity		
Current		
Bank indebtedness (note 9)	\$ 2,039,164	\$ -
Accounts payable and accruals	9,839,925	11,614,440
Customer deposits (note 10)	10,374,967	1,773,559
Mortgage (note 9)	2,645,122	-
Current income taxes payable	-	5,233,698
Current portion of obligations under capital lease (note 11)	6,472	14,114
Future income taxes (note 20)	-	237,347
	<u>24,905,650</u>	<u>18,873,158</u>
Obligations under capital lease (note 11)	682,535	471,298
Deferred revenue (note 12)	180,000	150,000
Future income taxes (note 20)	33,533	112,800
	<u>25,801,718</u>	<u>19,607,256</u>
Shareholders' Equity		
Share capital (note 13)	22,875,648	22,433,106
Contributed surplus (note 14)	7,839,387	6,469,885
Deficit	<u>(15,208,960)</u>	<u>(5,378,379)</u>
	<u>\$ 41,307,793</u>	<u>\$ 43,131,868</u>

Commitments and contingencies (notes 23 and 24)

See accompanying notes to the consolidated financial statements

On behalf of the Board

Director _____

Director _____

CV Technologies Inc.

Consolidated Statements of Deficit

Years ended September 30	2007	2006 As restated (note 3)
In Canadian dollars		
Deficit, beginning of year	\$ (5,378,379)	\$ (6,017,395)
Net (loss) earnings and comprehensive (loss) income	<u>(9,830,581)</u>	<u>639,016</u>
Deficit, end of year	<u>\$ (15,208,960)</u>	<u>\$ (5,378,379)</u>

See accompanying notes to the consolidated financial statements

CV Technologies Inc.

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

Years ended September 30	2007	2006
In Canadian dollars		As restated (note 3)
Product sales	\$ 42,035,482	\$ 41,387,088
Cost of goods sold	<u>13,214,655</u>	<u>13,286,800</u>
Gross profit	<u>28,820,827</u>	<u>28,100,288</u>
Operating expenses		
Advertising and marketing	16,419,312	8,278,167
Salaries and employee benefits	5,434,693	3,557,965
Contracting, consulting and professional fees	4,835,102	4,018,164
Research and development	3,094,264	2,620,947
Administration, occupancy and insurance	2,390,134	2,319,094
Stock-based compensation (note 14)	1,526,474	2,714,137
Amortization (note 16)	745,603	674,039
Interest and bank charges	232,724	60,626
Bad debts	43,948	41,387
(Gain) loss on foreign exchange (note 19)	(1,332,858)	60,245
	<u>33,389,396</u>	<u>24,344,771</u>
(Loss) earnings before other revenues, other expenses and income taxes	<u>(4,568,569)</u>	<u>3,755,517</u>
Other revenues (expenses)		
Interest revenue	296,086	411,342
Write down of deferred development costs (note 7)	(813,603)	-
Other items	(23,994)	(26,955)
	<u>(541,511)</u>	<u>384,387</u>
(Loss) earnings before income taxes	<u>(5,110,080)</u>	<u>4,139,904</u>
Income tax expense (note 20)		
Current	4,381,073	3,301,238
Future	339,428	199,650
	<u>4,720,501</u>	<u>3,500,888</u>
Net (loss) earnings and comprehensive (loss) income	<u>\$ (9,830,581)</u>	<u>\$ 639,016</u>
(Loss) earnings per share (note 15)		
Basic (loss) earnings per share	\$ (0.09)	\$ 0.01
Diluted (loss) earnings per share	<u>\$ (0.09)</u>	<u>\$ 0.01</u>

See accompanying notes to the consolidated financial statements

CV Technologies Inc.

Consolidated Statements of Cash Flows

Years ended September 30	2007	2006 As restated (note 3)
In Canadian dollars		
Operating activities		
Net (loss) earnings and comprehensive (loss) income for the year	\$ (9,830,581)	\$ 639,016
Items not affecting cash		
Stock-based compensation (note 14)	1,526,474	2,714,137
Amortization (note 16)	745,603	674,039
Write down of deferred development costs (note 7)	813,603	-
Loss on disposal of patents and registered trademarks (note 5)	46,491	-
Amortization of prepaid intra-group tax asset (note 8)	207,332	34,556
Future income tax expense (note 20)	339,428	199,650
	<u>(6,151,650)</u>	<u>4,261,398</u>
Changes in non-cash operating working capital		
Accounts receivable	264,938	(413,696)
Inventory (note 4)	2,182,780	(10,788,868)
Prepaid expenses and deposits	808,258	(1,149,547)
Prepaid intra-group tax asset (note 8)	-	(2,678,062)
Accounts payable and accruals	(3,685,324)	7,299,883
Current income taxes payable/receivable (note 20)	(5,954,797)	5,233,698
Customer deposits (note 10)	8,601,408	1,773,559
	<u>(3,934,387)</u>	<u>3,538,365</u>
Financing activities		
Payments on obligations under capital lease (note 11)	(17,871)	(34,812)
Issuance of share capital (note 13)	285,570	331,041
Issuance of bank indebtedness (note 9)	2,039,164	-
Issuance of mortgage (note 9)	2,645,122	-
	<u>4,951,985</u>	<u>296,229</u>
Investing activities		
Purchase of property, plant and equipment (note 6)	(6,108,939)	(1,918,222)
Purchase of patents and registered trademarks (note 5)	(149,368)	(75,072)
Proceeds from deferred revenue (note 12)	30,000	120,000
	<u>(6,228,307)</u>	<u>(1,873,294)</u>
(Decrease) increase in cash and cash equivalents	(5,210,709)	1,961,300
Cash and cash equivalents, beginning of year	7,913,281	5,951,981
Cash and cash equivalents, end of year	<u>\$ 2,702,572</u>	<u>\$ 7,913,281</u>
Supplemental cash flow information (note 17)		

See accompanying notes to the consolidated financial statements

CV Technologies Inc.

Notes to the Consolidated Financial Statements

Years Ended September 30, 2007 and 2006

All amounts are in Canadian dollars, except where noted

1. Nature of operations and basis of presentation

CV Technologies Inc. (CVQ or the Company) is a publicly owned company that develops and sells biopharmaceutical 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, Canada.

The Company has subsidiary companies incorporated and operating in China, the United States, Switzerland and Canada. ChemBioPrint Asia Limited is incorporated under the Companies Ordinance of Hong Kong. COLD-fX Pharmaceuticals (USA) Inc. is incorporated in Delaware, United States. fX Life Sciences International GmbH is incorporated under the Swiss Code of Obligations. CVT Capital Inc. is incorporated under the Business Corporations Act (Alberta) with operations in Edmonton, Canada.

2. Summary of significant accounting policies

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP) applied on a consistent basis. The significant accounting policies are summarized below.

Principles of consolidation

The consolidated financial statements include the assets, liabilities and results of operations, after the elimination of intercompany transactions and balances, of the Company and its wholly owned subsidiaries: COLD-fX Pharmaceuticals (USA) Inc., fX Life Sciences International GmbH, CVT Capital Inc., ChemBioPrint Asia Limited and its 60% joint venture interest in Vet Ex Inc. ChemBioPrint Asia Limited and Vet Ex Inc. were in the process of being wound down during the years ended September 30, 2006 and 2007 with modest levels of activity during these periods.

Use of estimates and measurement uncertainty

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

Significant estimates made by management include provisions for customer discounts and incentives, allowances for uncollectible accounts, right of returns, the realizable portion of inventory during the Company's normal business cycle, inventory provisions, the realizability of future income taxes, useful lives of long-lived assets, future expected cash flows used in evaluating long-lived assets for impairment, percentage completion of contracted service expenditures and stock-based compensation fair values. On an ongoing basis, management reviews its estimates to ensure that these values appropriately reflect changes in the Company's business and new information as it becomes available. As at September 30, 2007, management's estimate for customer discounts and incentives totalled approximately \$1,400,000 (2006 - \$1,800,000), which are included in accounts payable and accruals and customer deposits and as a reduction in accounts receivable.

CV Technologies Inc.

Notes to the Consolidated Financial Statements

Years Ended September 30, 2007 and 2006

All amounts are in Canadian dollars, except where noted

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

Translation of foreign currencies

The consolidated 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 COLDFX 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 consolidated balance sheet date and non-monetary assets and liabilities are translated at the rate in effect when the assets were acquired or liabilities were assumed. Revenues and expenses are translated in a manner that produces substantially the same reporting currency amounts that would have resulted had the underlying transactions been translated on the dates they occurred. This approach is achieved by applying the average quarterly exchange rates to revenues and expenses that occurred in each of the respective quarters. Amortization and non-monetary items such as inventory, prepaid expenses and deposits, property, plant and equipment and patents and registered trademarks 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) sales price is fixed and determinable; and
- 4) product 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. This risk is substantially eliminated when the final customer purchases the product from the retailer or the right of return has expired or been eliminated. The Company relies on third party information to estimate when the final customer has completed a purchase. Product shipped where the risk of return cannot be estimated is included in inventory as "product shipped with right-of-return" (note 4). If customer payment has been received for product shipped with right-of-return, the Company records the payment as a customer deposit (note 10).

CV Technologies Inc.

Notes to the Consolidated Financial Statements

Years Ended September 30, 2007 and 2006

All amounts are in Canadian dollars, except where noted

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

Revenue recognition (cont'd)

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 estimable. If discounts, rebates and/or incentive allowances result in negative revenue for a specific customer since inception of the overall 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.

Cash and cash equivalents

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

Inventory

Inventories of raw materials and packaging materials are valued at the lower of cost or replacement value. Inventories of finished goods, work-in-progress and product shipped with right-of-return are valued at the lower of cost or net realizable value. Prior to July 1, 2007, work-in-progress was valued at the lower of cost or replacement value. The Company believes that the valuation of work-in-progress at the lower of cost and net realizable value is a more appropriate measure as the processed inventory has undergone significant changes utilizing the Company's intellectual property and as such replacement value would be inappropriate. The implementation of this change did not have an impact on the Company's consolidated financial statements.

Work-in-progress costs include direct materials and labour and are determined on a weighted average basis. 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. Inventory is reviewed for obsolescence at least on an annual basis, and where identified is expensed to cost of goods sold. Management's estimate of inventory not reasonably expected to be realized in cash during the normal operating cycle is classified as non-current inventory.

Patents and registered trademarks

Patents and registered trademarks are recorded at cost and are amortized on a straight-line basis over their estimated useful life of twenty and ten years, respectively.

CV Technologies Inc.

Notes to the Consolidated Financial Statements

Years Ended September 30, 2007 and 2006

All amounts are in Canadian dollars, except where noted

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

Property, plant and equipment

Property, plant and equipment, including equipment under capital leases, are carried at cost less accumulated amortization. Gains and losses arising on the disposal of individual assets are recognized in earnings in the year of disposal.

Costs are capitalized on properties which are under development, including all expenditures incurred in connection with acquisition, development and construction of the asset. These expenditures consist of all direct costs, interest on debt that is related to these assets and certain administrative expenses.

Amortization is not recorded until an asset is available for use. 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 lease	20%, declining balance

The costs for periodic repairs and maintenance are expensed to the extent the expenditures serve only to restore the assets to their normal operating condition without enhancing the service potential or extending the useful lives.

Leases

Leases entered into by the Company in which substantially all of the benefits and risks of ownership are transferred to the Company are recorded as capital leases and classified as property, plant and equipment and obligations under capital lease. Obligations under capital lease reflect the present value of future lease payments, discounted at an appropriate interest rate, and are reduced by lease payments net of imputed interest. Assets under capital leases are amortized based on the estimated useful life of the asset. All other leases are classified as operating leases and leasing costs are expensed in the period in which they are incurred.

CV Technologies Inc.

Notes to the Consolidated Financial Statements

Years Ended September 30, 2007 and 2006

All amounts are in Canadian dollars, except where noted

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

Research and development costs

Research and development costs are charged to expenses as incurred unless a development project meets the Canadian GAAP 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.

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 Company annually evaluates deferred development costs to consider whether these costs continue to meet criteria for deferral. Amortization of development costs commence at the start of commercial production of the product. Costs are amortized on a straight-line basis over a five year period based on recoverability of unamortized deferred development costs.

Prepaid intra-group tax assets

When an asset is transferred between enterprises within the consolidated group of companies resulting in payment 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.

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

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 and recorded as a reduction in rental expense.

CV Technologies Inc.

Notes to the Consolidated Financial Statements

Years Ended September 30, 2007 and 2006

All amounts are in Canadian dollars, except where noted

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

Comprehensive income and financial instruments

On October 1, 2006, the Company adopted Canadian Institute of Chartered Accountants (CICA) Handbook Section 1530, Comprehensive Income. This Section establishes the standards for reporting and disclosure of comprehensive income and its components. Comprehensive income is the change in equity (net assets) of an enterprise, during a period, from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. The Company did not have other comprehensive income, a component of comprehensive income not included in net earnings, and accordingly total comprehensive income and net (loss) earnings are equal.

On October 1, 2006, the Company adopted the following 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*"

CICA Handbook Sections 3862 and 3863 were adopted early. 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; bank indebtedness, customer deposits on product shipped with right-of-return, mortgage, accounts payable and accruals and obligations under capital lease have been classified as other liabilities.

All financial instruments are initially recorded on the consolidated 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, when presented, are included directly in equity as accumulated other comprehensive income. The adoption of CICA Handbook Section 1530 did not have an impact on the consolidated financial statement presentation for the year ended September 30, 2007 or comparative information.

Except for revolving debt obligations, financial assets and financial liabilities classified other than as held for trading are measured at amortized cost based on the effective interest method. Revolving debt obligations expense transaction costs that are directly attributable to the acquisition or issuance of the financial liability. The application of this standard did not have an impact on the consolidated financial statements at the date of adoption.

CV Technologies Inc.

Notes to the Consolidated Financial Statements

Years Ended September 30, 2007 and 2006

All amounts are in Canadian dollars, except where noted

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

Comprehensive income and financial instruments (cont'd)

a) Fair value

The Company's financial instruments include cash and cash equivalents, accounts receivable, current income taxes, bank indebtedness, accounts payable and accruals, customer deposits on product shipped with right-of-return, mortgage and obligations under capital lease. 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. Cash and cash equivalents, accounts receivable, current income taxes, bank indebtedness, accounts payable and accruals and customer deposits on product shipped with right-of-return are assets and liabilities that have short periods to maturity and the carrying values contained in the consolidated balance sheet approximate their estimated fair value. The fair values of other financial instruments reflect the Company's best estimate based upon estimated interest rates at which the Company believes it could enter into with similar instruments at the consolidated balance sheet date.

b) Interest rate risk

Bank indebtedness and mortgage 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 bank prime lending rate. The Company did not employ interest rate hedging activities during the year, allowing outstanding bank debt to generally float at short-term market rates of interest. The Company has the option to fix the interest rate on its mortgage for the balance of the term.

c) Foreign currency risk

The Company has assets and liabilities that are denominated in foreign currencies and thus are 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 customer does not fulfil its obligations. This is minimized through a customer base predominantly comprised of well established 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. The failure of a large customer would have a significant effect on the Company. As at September 30, 2007, three customers (2006 – two) represented 72% of total Canadian accounts receivable (2006 – 72%). Included in accounts receivable is an allowance for doubtful accounts of \$100,559 (2006 - \$59,232). At September 30, 2007, there were three customers that made up \$68,760 or 68% (2006 – two customers at \$50,132 or 85%) of the allowance for doubtful accounts.

CV Technologies Inc.

Notes to the Consolidated Financial Statements

Years Ended September 30, 2007 and 2006

All amounts are in Canadian dollars, except where noted

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

Comprehensive income and financial instruments (cont'd)

e) Liquidity risk

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

Impairment of long-lived assets

The Company evaluates the carrying value of long-lived assets, including property, plant and equipment, intangible assets and other assets subject to amortization, for potential impairment when events and circumstances warrant a review. Factors that the Company considers important which could trigger an impairment review include, but are not limited to, significant underperformance relative to historical or projected future operating results, significant changes in the manner of use of the asset or the overall strategy of the business, significant negative industry or economic trends, a significant decline in the Company's stock price for a sustained period and the Company's market capitalization relative to the net book value of its assets and liabilities. These factors could affect the expected cash flows of the related long-lived asset.

Impairment of non-monetary long-lived assets 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 consolidated balance sheet at the lower of the fair value or carrying amount and charged to earnings.

(Loss) earnings per share

The computation of basic (loss) earnings per share has been calculated by dividing net earnings by the weighted average number of common shares outstanding during the year.

Diluted (loss) earnings per share reflect the potential dilution that would occur if stock options and warrants were exercised. The computation of diluted (loss) earnings per share has been calculated by dividing net earnings available to common shareholders by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding arising from the exercise of potentially dilutive stock options outstanding during the year. The Company uses the treasury method for outstanding options and warrants which assumes that the use of proceeds that could be obtained upon exercise of options and warrants in computing diluted earnings per share are used to purchase the Company's common shares at the average market price during the year.

CV Technologies Inc.

Notes to the Consolidated Financial Statements

Years Ended September 30, 2007 and 2006

All amounts are in Canadian dollars, except where noted

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 applies the fair value method of accounting for its stock-based compensation. The fair value at grant date of stock options is estimated using the Black-Scholes option pricing model. Stock-based compensation cost is recognized on a straight-line basis over the expected vesting period of the stock-based compensation. Any consideration paid upon exercise of stock options is recorded as an increase in share capital and the recorded fair value of the related stock option is reclassified from contributed surplus to share capital.

Accounting changes

On October 1, 2007, the Company will adopt CICA Handbook Section 1506, Accounting Changes. This Section allows an entity to change an accounting policy only if the change is required by a primary source of GAAP or results in the consolidated financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows. This standard is effective for interim and annual periods relating to fiscal years beginning on or after January 1, 2008. The Company has elected to adopt this Section earlier than required and does not expect that the adoption will have a material impact on its consolidated financial statements.

On October 1, 2007, the Company will adopt CICA Handbook Section 1535, Capital Disclosures. This Section establishes standards for disclosing information about an entity's capital and how it is managed. The standard is effective for interim and annual consolidated financial statements relating to fiscal years beginning on or after October 1, 2007. The Company does not expect that the adoption of this standard will have a material impact on its consolidated financial statements.

The CICA, in the pursuit of aligning with that of International Financial Reporting Standards, has adopted the majority of the accounting principles as described in IAS 2, Inventory, as CICA Handbook Section 3031. This Section prescribes the measurement of inventory at the lower of cost and net realizable value. The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. This Section applies to interim and annual consolidated financial statements for fiscal years beginning on or after January 1, 2008. The Company plans to adopt this Section for its fiscal year beginning October 1, 2008.

CV Technologies Inc.

Notes to the Consolidated Financial Statements

Years Ended September 30, 2007 and 2006

All amounts are in Canadian dollars, except where noted

3. Restatement of previously issued consolidated financial statements

Subsequent to the preparation of the Company's 2006 audited consolidated financial statements, the Company learned that there was significant uncertainty in estimating product returns in the US market. According to the Company's revenue recognition policy, this uncertainty should have precluded the recognition of revenue until the risk of return was substantially eliminated. The application of the revenue recognition policy also affected the appropriate classification of its foreign subsidiaries and the appropriate translation method utilized for consolidation. The Company had classified foreign subsidiaries as self-sustaining and used the current rate method for currency translation. Foreign subsidiaries were reclassified as integrated foreign operations and the consolidated balance sheet amounts and operating results were translated using the temporal method. As a result, the Company has restated its consolidated balance sheet and statement of deficit, as at September 30, 2006 and consolidated statement of (loss) earnings and comprehensive (loss) income and statement of cash flows for the year ended September 30, 2006. The adjustments relate to:

- Revenue recognition errors, and
- Foreign currency translation of foreign operations from using the current rate method to the temporal method.

The impact of these changes was a decrease in product sales, gross profit and net (loss) earnings and comprehensive (loss) income of \$5,585,985, \$4,211,323 and \$3,498,294, respectively. Total assets decreased \$1,203,475, total liabilities increased \$2,235,351 and total shareholders' equity decreased \$3,438,826. Basic and diluted earnings per share decreased \$0.03 each.

4. Inventory

Inventory is comprised of the following:

	2007	2006
Finished goods	\$ 9,014,194	\$ 10,587,148
Work-in-progress	3,755,470	4,491,649
Product shipped with right-of-return	1,267,932	1,486,611
Raw materials	1,448,528	302,781
Packaging materials	756,601	1,557,316
	\$ 16,242,725	\$ 18,425,505
Less non-current portion	7,351,019	-
	\$ 8,891,706	\$ 18,425,505

CV Technologies Inc.

Notes to the Consolidated Financial Statements

Years Ended September 30, 2007 and 2006

All amounts are in Canadian dollars, except where noted

5. Patents and registered trademarks

	Cost	Accumulated Amortization	Net Book Value
<hr/>			
September 30, 2007			
Patents	\$ 1,367,778	\$ 575,155	\$ 792,623
Registered trademarks	191,184	89,958	101,226
	<hr/>	<hr/>	<hr/>
	\$ 1,558,962	\$ 665,113	\$ 893,849
<hr/>			
September 30, 2006			
Patents	\$ 1,258,660	\$ 515,566	\$ 743,094
Registered trademarks	205,472	74,836	130,636
	<hr/>	<hr/>	<hr/>
	\$ 1,464,132	\$ 590,402	\$ 873,730
<hr/>			

The Company recorded patents and trademarks amortization expense of \$82,758 (2006 – \$78,046). During the year, additions to patents and registered trademarks totalled \$149,368 (2006 - \$75,072).

CV Technologies Inc.

Notes to the Consolidated Financial Statements

Years Ended September 30, 2007 and 2006

All amounts are in Canadian dollars, except where noted

6. Property, plant and equipment

	Cost	Accumulated Amortization	Net Book Value
<hr/>			
September 30, 2007			
Building under construction	\$ 9,552,210	\$ -	\$ 9,552,210
Land under capital lease	616,099	-	616,099
Lab equipment	435,466	116,584	318,882
Computer hardware	393,961	136,904	257,057
Furniture and equipment	364,969	155,650	209,319
Computer software	284,282	171,147	113,135
Leasehold improvements	99,207	90,744	8,463
Automobiles	44,788	26,134	18,654
Equipment under capital lease	74,631	36,308	38,323
	<hr/>	<hr/>	<hr/>
	\$11,865,613	\$ 733,471	\$11,132,142
<hr/>			
September 30, 2006			
Building under construction	\$ 1,678,281	\$ -	\$ 1,678,281
Land under capital lease	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
Automobiles	44,788	18,139	26,649
Equipment under capital lease	52,434	28,461	23,973
	<hr/>	<hr/>	<hr/>
	\$ 3,623,717	\$ 431,545	\$ 3,192,172
<hr/>			

The Company recorded property, plant and equipment amortization expense of \$301,244 (2006 - \$234,392). During the year, additions to equipment under capital lease totalled \$22,197 (2006 - \$nil). Building under construction includes interest capitalized in the year of \$50,332 (2006 - \$nil).

CV Technologies Inc.

Notes to the Consolidated Financial Statements

Years Ended September 30, 2007 and 2006

All amounts are in Canadian dollars, except where noted

7. Deferred development costs

	Cost	Accumulated Amortization	Net Book Value
September 30, 2007			
Development costs	\$ -	\$ -	\$ -
September 30, 2006			
Development costs	\$ 1,808,006	\$ 632,802	\$ 1,175,204

Upon review of deferred development costs at September 30, 2007, management determined that the unamortized balance no longer met the criteria for deferral. Although management believes there is future value associated with these development costs, it is uncertain as to when these benefits will be realized. As a result, the Company recognized \$813,603 (2006 - \$nil) in impairment in addition to amortization expense of \$361,601 (2006 - \$361,601).

8. 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 thirteen year estimated useful life of the transferred asset. During the year, the Company has recognized \$207,332 (2006 - \$34,556) of this expense.

9. Financing facilities

The Company's bank credit facilities are comprised of the following:

a) At September 30, 2007, the Company had access to a \$3,000,000 demand operating line of credit and had drawn \$2,039,164. Subsequent to year end, the Company was granted full access to the line of credit up to a maximum of \$10,000,000 (note 27). The line of credit is based on 75% of accounts receivable aged less than 90 days plus 50% of finished goods inventory for the period from September to February or 65% of finished goods inventory for the period from March to August each year to a maximum limit of \$6,000,000. Interest under the operating line facility is based on the bank prime lending rate plus a stamping fee equal to 1.5% per annum. The effective interest rate for the year was 6.75%.

Included in the operating line facility the Company has the ability to issue up to \$1,000,000 of letters of guarantee. At September 30, 2007, the Company had two standby letters of credit in the amount of \$124,000 and \$495,600 which will remain in effect until December 31, 2007 and December 1, 2008, respectively. Standby letters of credit are subject to a charge of 1% per annum.

CV Technologies Inc.

Notes to the Consolidated Financial Statements

Years Ended September 30, 2007 and 2006

All amounts are in Canadian dollars, except where noted

9. Financing facilities (cont'd)

b) The Company also has a \$6,175,000 three-year term mortgage facility for the construction of the new headquarters and research centre on land held under a capital lease. This mortgage is to be advanced to the Company, based on estimated progress of completion, in four installments commencing August 31, 2007. As at September 30, 2007, the Company has drawn \$2,675,000 under this facility. The facility bears interest at the Bank's prime lending rate plus 0.75% per annum. Using the effective interest method to determine the carrying value of the financial liability, the effective interest rate of the mortgage is 7.48%. Repayments are to be interest only until March 31, 2008, and monthly principal payment of \$51,460 plus interest thereafter. The Company may prepay the mortgage without penalty at any time in whole or in part and applied to the principal in the inverse order of maturities of the repayments. The Company has presented the term mortgage net of financing charges of \$30,658. Additional financing charges of \$40,113 have been deferred until the balance of the mortgage has been drawn.

The facility agreement contains repayment acceleration clauses that may cause the debt to become due and payable, or the collateral to become immediately enforceable, if certain events of default occur. The acceleration clauses include subjective default events such as any adverse change occurring in the financial condition of the Company or its property, equipment or business activities.

The Company has pledged as collateral for both financing facilities 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 a director who is a shareholder of the Company, collateralized by common shares of another publicly traded company, at a cost of 0.5% per month commencing July 16, 2007.

The Company's various facilities are subject to certain financial covenants. As at September 30, 2007, the Company is in breach of its current ratio financial covenant which resulted from the Company's reclassification of a portion of its inventory as non-current. The Company has received a waiver of this breach from its lender indicating no action to accelerate payment will occur on this particular breach as at September 30, 2007. Management of the Company is not aware of any other pending condition that would require accelerated repayment of the bank financing.

Subject to any demand for partial or full repayment of the obligation, required principal repayments of the mortgage are as follows:

2008	\$	308,760
2009		617,520
2010		617,520
2011		1,131,200
<hr/>		
Total mortgage	\$	2,675,000
Less transaction costs net against principal balance		29,878
<hr/>		
Carrying value of mortgage	\$	2,645,122

CV Technologies Inc.

Notes to the Consolidated Financial Statements

Years Ended September 30, 2007 and 2006

All amounts are in Canadian dollars, except where noted

10. Customer deposits

The Company has received customer deposits totalling \$10,374,967 (2006 - \$1,773,559) for product shipped with right-of-return. At September 30, 2007, three customers represented \$9,290,907 or 90% (2006 – two customers represented \$1,503,689 or 85%) of the total customer deposits. As at September 30, 2007, the Company has received inventory returns requiring refund of approximately \$4,816,000 (2006 - \$nil). The Company has authorized additional inventory returns requiring refund of approximately \$2,428,000 (2006 - \$nil) to be delivered subsequent to year end. Inventory returns are not considered payable until the products have passed a quality and verification process. This process had not been completed for the above returns as at September 30, 2007.

If the risk of return for the remaining product shipped with the right-of-return is substantially eliminated, the revenue from the product shipment will be recognized and liability for the customer deposit is eliminated. If the product is returned and cash payment has been made, 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.

11. Obligations under capital lease

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

2008	\$	8,296
2009		7,135
2010		5,615
2011		5,400
2012 and thereafter		1,155,250
Total minimum lease payments		1,181,696
Less: amounts representing interest at an imputed rate of 6.75%		492,689
Balance of obligations under capital lease		689,007
Less: current portion		6,472
Long-term balance of obligations under capital lease		\$ 682,535

The Company intends to purchase the land under capital lease on November 30, 2015 for the stated buy-out option of \$1,155,250. The present value of this payment has been recorded as an obligation under capital lease. Interest expense on obligations under capital lease for the year totalled \$3,249 (2006 - \$8,260).

CV Technologies Inc.

Notes to the Consolidated Financial Statements

Years Ended September 30, 2007 and 2006

All amounts are in Canadian dollars, except where noted

12. Deferred revenue

Deferred revenue as at September 30, 2007 consists of deposits totalling \$180,000 (2006 - \$150,000). These deposits require a guaranteed volume of inventory to be available to the customer throughout the duration of the agreement. Revenue may be recognized upon depletion of the inventory. The deposit may be refundable to the customer.

13. Share capital

Authorized:

Unlimited number of Class A voting common shares with no par value

Unlimited number of Class P preferred shares with no par value,
voting rights to be determined prior to first issue

Issued and outstanding:

	Number of Shares	Share Capital
<hr/>		
Class A common shares:		
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	-	165,838
<hr/>		
Balance, September 30, 2006	102,773,340	\$ 22,433,106
Exercise of options	1,327,666	285,570
Recognition of fair value of options exercised	-	156,972
<hr/>		
Balance, September 30, 2007	104,101,006	\$ 22,875,648

CV Technologies Inc.

Notes to the Consolidated Financial Statements

Years Ended September 30, 2007 and 2006

All amounts are in Canadian dollars, except where noted

13. 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, directors and certain others options to purchase from treasury up to 22,170,442 common shares. The vesting conditions are specified by the Board of Directors and may include continued service of the employee or non-employee with the Company and/or other criteria based on a measure of the Company's performance.

A summary of the status of the Company's outstanding stock options as at September 30, 2007 and 2006 and changes during these years is presented below:

	2007		2006	
	Number of options outstanding	Weighted average exercise price	Number of options outstanding	Weighted average exercise price
Outstanding, beginning of year	14,770,601	\$ 1.26	16,180,770	\$ 1.11
Exercised	(1,327,666)	0.22	(1,585,169)	0.21
Granted	1,010,000	1.41	80,000	3.98
Granted subject to shareholder approval	-	-	255,000	3.45
Expired, terminated and forfeited	(3,500,000)	2.84	(160,000)	1.26
Outstanding, end of year	10,952,935	0.89	14,770,601	1.26
Exercisable, end of year	8,752,335	0.55	10,731,601	0.64

All outstanding share options vest and become exercisable over a period not exceeding five years (time vesting) from the date of grant and/or upon the achievement of specified performance targets (based on net sales and earnings). During the year, a member of management voluntarily surrendered and relinquished all rights and privileges associated with 3,500,000 options.

CV Technologies Inc.

Notes to the Consolidated Financial Statements

Years Ended September 30, 2007 and 2006

All amounts are in Canadian dollars, except where noted

13. Share capital (cont'd)

The number of options outstanding at September 30, 2007 together with details regarding time and performance vesting conditions of the options are as follows:

Exercise prices	Number outstanding	Weighted average remaining term (in years)	Options currently exercisable (vested)	Options subject to time vesting only (not vested)	Options subject to performance vesting only (not vested)
\$0.15	3,622,492	0.60	3,622,492	-	-
\$0.20	20,000	0.72	20,000	-	-
\$0.25	33,000	1.01	33,000	-	-
\$0.50	250,000	1.72	250,000	-	-
\$0.57	143,000	1.84	143,000	-	-
\$0.71	813,916	1.27	813,916	-	-
\$0.74	3,600,527	1.61	3,600,527	-	-
\$1.24	830,000	5.72	-	600,000	230,000
\$1.25	80,000	5.88	-	80,000	-
\$2.62	250,000	2.80	100,000	150,000	-
\$2.84	895,000	2.42	106,400	788,600	-
\$2.98	100,000	4.21	-	100,000	-
\$3.29	200,000	3.69	40,000	160,000	-
\$3.42	10,000	3.41	2,000	8,000	-
\$4.04	55,000	3.94	11,000	44,000	-
\$4.32	50,000	3.16	10,000	40,000	-
	10,952,935		8,752,335	1,970,600	230,000

CV Technologies Inc.

Notes to the Consolidated Financial Statements

Years Ended September 30, 2007 and 2006

All amounts are in Canadian dollars, except where noted

14. Contributed surplus

During the year, contributed surplus has changed as follows:

	2007	2006
Balance, beginning of year	\$ 6,469,885	\$ 3,921,586
Stock-based compensation recognition of fair value of stock options granted to:		
Employees, officers and directors	1,388,034	2,653,024
Non-employees	138,440	61,113
Recognition of fair value of stock options exercised	(156,972)	(165,838)
Balance, end of year	\$ 7,839,387	\$ 6,469,885

The fair value of the options issued is determined using the Black-Scholes option pricing model. The following weighted average assumptions were utilized to calculate the fair value:

	2007	2006
Total options granted	1,010,000	335,000
Exercise price	\$ 1.41	\$ 3.58
Risk-free interest rate	4%	4%
Expected life	6 years	5 years
Vesting period	4 years	5 years
Expected annual volatility	105%	112%
Dividend yield	-	-
Fair value	\$ 1.16	\$ 2.89

CV Technologies Inc.

Notes to the Consolidated Financial Statements

Years Ended September 30, 2007 and 2006

All amounts are in Canadian dollars, except where noted

15. (Loss) earnings per share

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

	2007	2006
Numerator for basic (loss) earnings per share	\$ (9,830,581)	\$ 639,016
Denominator:		
Weighted average number of common shares	103,576,690	101,883,736
Dilutive effect of stock options	-	10,564,640
Denominator for diluted (loss) earnings per share	103,576,690	112,448,376
(Loss) earnings per share		
Basic	\$ (0.09)	\$ 0.01
Diluted	(0.09)	0.01

The Company uses the treasury stock method to calculate (loss) earnings per share and under this method options that are anti-dilutive are excluded from the calculation of diluted earnings per share. For the year ended September 30, 2007, all outstanding options are considered anti-dilutive when earnings available to common shareholders are in a loss position.

16. Amortization

	2007	2006
Patents and registered trademarks (note 5)	\$ 82,758	\$ 78,046
Property, plant and equipment (note 6)	301,244	234,392
Deferred development costs (note 7)	361,601	361,601
	\$ 745,603	\$ 674,039

CV Technologies Inc.

Notes to the Consolidated Financial Statements

Years Ended September 30, 2007 and 2006

All amounts are in Canadian dollars, except where noted

17. Supplemental cash flow information

	2007	2006
Cash and cash equivalents is comprised of:		
Balances with banks	\$ 3,285,103	\$ 8,209,878
Deposits in transit	9,129	-
Cheques in transit	(591,660)	(296,597)
	\$ 2,702,572	\$ 7,913,281
Interest paid	\$ 9,133	\$ 31,711
Income taxes paid	\$ 10,256,453	\$ -
Non-cash financing and investing activities:		
Property, plant and equipment additions financed by obligations under capital lease	\$ 171,134	\$ 467,162
Property, plant and equipment additions included in accounts payable and accruals at year-end	1,910,809	521,419

18. Related party transactions

On July 16, 2007, a shareholder who is also a director provided the Company with a guarantee of \$5,000,000, at a fee of 0.5% per month, to be used as collateral for the bank loan. During the year, the Company has expensed as interest \$62,903 in fees related to this guarantee.

During the year, Vet Ex Inc. repaid the Company \$37,407 in intercompany loans. Centaur VA, the partner in the joint venture, refunded \$8,303 to the Company related to Vet Ex Inc. intercompany loans as well as legal fees for the dissolution of Vet Ex Inc. In the dissolution, the Company also forgave \$8,303 in intercompany receivables from Vet Ex Inc.

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.

During fiscal 2007, the Company hired as part of its management team an individual who is also part of a vendor's management. During the year, approximately \$567,639 was expensed as advertising and marketing costs provided by this vendor subsequent to the above individual being hired by the Company. As at September 30, 2007, approximately \$287,267 is payable to the related vendor.

All transactions with related parties have occurred in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

CV Technologies Inc.

Notes to the Consolidated Financial Statements

Years Ended September 30, 2007 and 2006

All amounts are in Canadian dollars, except where noted

19. (Gain) loss on foreign exchange

	2007	2006
Realized loss on foreign currency transactions	\$ 148,950	\$ 60,328
Unrealized gain on foreign currency translation of foreign operations	(1,481,808)	(83)
	\$ (1,332,858)	\$ 60,245

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

20. Income taxes

Income taxes and amounts in lieu of income taxes differ from the amounts that would be computed by applying the federal and provincial income tax rates as follows:

	2007	2006
Income taxes and amounts in lieu of income taxes at statutory rates of 33.8% (2006 – 34.1%)	\$ (1,728,740)	\$ 1,410,879
Increase (decrease) resulting from:		
Income tax related to previous periods	57,882	-
Non-deductible amounts	14,052	134,429
SR&ED adjustments	-	268,167
Tax rate differences of foreign subsidiaries	3,277,694	762,555
Non-deductible stock-based compensation	516,406	924,858
Change in valuation allowance	2,375,875	-
Portion of prepaid intra-group tax asset charged to expense	207,332	-
Income tax expense	\$ 4,720,501	\$ 3,500,888

CV Technologies Inc.

Notes to the Consolidated Financial Statements

Years Ended September 30, 2007 and 2006

All amounts are in Canadian dollars, except where noted

20. Income taxes (cont'd)

The tax effects of temporary differences that give rise to significant portions of the future income tax asset and future income tax liability at September 30, 2007 are presented below:

	2007	2006
Future income tax asset:		
Non-capital losses carried forward (expiring 2009 to 2027)	\$ 2,388,276	\$ 9,762
Deferred revenue	331,079	475,201
Intercompany profit elimination	-	507,893
Other tax assets	46,219	15,124
	\$ 2,765,574	\$ 1,007,980
Future income tax liability:		
Deferred development costs	\$ -	\$ 56,340
Patents and registered trademarks	22,157	-
Property, plant and equipment	55,527	62,850
Investment tax credits applied	-	237,347
	\$ 77,684	\$ 356,537
Net future tax asset (liability)	2,687,890	651,443
Valuation allowance	2,375,875	-
	\$ 312,015	651,443

Presented in the consolidated financial statements as follows:

	2007	2006
Future tax asset – current	\$ -	\$ 1,001,590
Future tax asset – non-current	345,548	-
Future tax liability – current	-	(237,347)
Future tax liability – non-current	(33,533)	(112,800)
Net future tax asset (liability)	\$ 312,015	\$ 651,443

CV Technologies Inc.

Notes to the Consolidated Financial Statements

Years Ended September 30, 2007 and 2006

All amounts are in Canadian dollars, except where noted

20. Income taxes (cont'd)

In accordance with CICA Handbook Section 3465, "Accounting for Income Taxes", the Company reviews all available positive and negative evidence to evaluate the recoverability of future tax assets. This includes a review of the Company's cumulative losses in recent years, the carryforward period related to the tax losses, and the tax planning strategies available to the Company. The Company has unused tax loss carryforwards in the United States of approximately \$2,835,042 expiring between 2017 and 2027, which are available to reduce taxable income in future years. The Company has unused tax loss carryforwards in Switzerland of approximately \$13,861,496 which are available to reduce taxable income in future years. The benefit of these losses has not been recorded in these consolidated financial statements. They have been fully offset by a valuation allowance.

The Company has accumulated a Scientific Research and Experimental Development (SR&ED) pool of \$nil (2006 - \$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 \$nil (2006 - \$700,253). The SR&ED claim for 2006 has not yet been filed.

CV Technologies Inc.

Notes to the Consolidated Financial Statements

Years Ended September 30, 2007 and 2006

All amounts are in Canadian dollars, except where noted

21. Segmented information

The Company operates in one operating segment - biopharmaceutical products. Management assesses performance and makes resource decisions based on the consolidated results of operations of this operating segment. Substantially all of the operations of the Company are directly engaged in or support this operating segment. Other operations are not material and share many of the same economic and operating characteristics as biopharmaceutical products and, accordingly, they are included with biopharmaceutical products for purposes of segment reporting.

The accounting policies of the Company's operating segments are the same as those described in note 2. Inter-segment transactions are eliminated upon consolidation. The following table presents information on the Company's operating results for the years ended September 30, 2007 and September 30, 2006, and property, plant and equipment as at September 30, 2007 by geographic area:

	2007	2006
Product sales		
Canada	\$ 40,955,353	\$ 41,336,315
United States	1,080,129	8,004
Other	-	42,769
	<hr/>	<hr/>
	\$ 42,035,482	\$ 41,387,088
Property, plant and equipment		
Canada	\$ 11,131,153	\$ 3,190,325
Switzerland	-	1,847
United States	989	-
	<hr/>	<hr/>
	\$ 11,132,142	\$ 3,192,172

Geographic information about the Company's revenue is based on the product shipment destination or the location of the contracting organization. Property, plant and equipment are based on their physical location.

The Company derives significant revenue from certain customers. During the year, four major customers (2006 – four) accounted for \$29,455,221 or 72% (2006 - \$27,050,851 or 65%) of the Company's Canadian product sales.

CV Technologies Inc.

Notes to the Consolidated Financial Statements

Years Ended September 30, 2007 and 2006

All amounts are in Canadian dollars, except where noted

22. Employee contribution plans

The Company and its subsidiaries match voluntary contributions made by employees to their Registered Retirement Savings Plans to a maximum of 3% of earnings for each employee. Contributions made by the Company during the year ended September 30, 2007 were \$145,080 (2006 – \$63,981).

23. Commitments

a) 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, 2007 to September 30, 2010, and for which minimum lease payments total approximately \$600,000.

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

2008	\$	300,000
2009		180,000
2010		120,000
		<hr/>
		\$ 600,000

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:

2008	\$	1,913,614
2009		365,610
		<hr/>
		\$ 2,279,224

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:

2008	\$	130,159
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CV Technologies Inc.

Notes to the Consolidated Financial Statements

Years Ended September 30, 2007 and 2006

All amounts are in Canadian dollars, except where noted

23. Commitments (cont'd)

d) The Company has entered into contractual obligations for the construction of the new headquarters and research centre in Edmonton, Canada. Estimated total project costs are \$11 million with \$9,501,874 incurred to date. Project completion is scheduled for the spring of 2008.

24. Legal proceedings

a) The Company and certain of its officers and directors were named as defendants in two concurrent class action lawsuits. These two actions were filed in the Ontario Superior Court of Justice and Alberta. The lawsuits, brought on behalf of shareholders who purchased the Company's common stock between December 11, 2006 and March 23, 2007, allege primarily that the audited consolidated financial statements for the year ended September 30, 2006 and unaudited consolidated financial statements for the quarter ended December 31, 2006 were false and misleading. These lawsuits seek compensatory damages, costs, and expenses in the amount of \$110,000,000. The lawsuits are at a very early stage and as a result the Company is not able to estimate a potential loss exposure. The matters raised in the lawsuits are, at this stage, unproven allegations that will be vigorously defended, although no assurances can be given with respect to the outcome of such proceedings. Management believes that the Company's directors and officers insurance policy provides for reimbursement for costs and expenses incurred in connection with this lawsuit as well as potential damages awarded, if any, subject to certain policy limits.

b) The Company has indemnification agreements with its directors and officers. An officer or director is permitted to the extent permitted by the Business Corporations Act (Alberta), to claim expenses (including legal fees), judgments, fines and any amount actually and reasonably incurred by them in connection with any action, suit or proceeding in which the directors and/or officers are sued as a result of their services, if they acted honestly and in good faith with a view to the best interests of the Company. The nature of the indemnification prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. No amount has been accrued in the consolidated balance sheet as at September 30, 2007 with respect to this indemnity.

c) The Company is involved in a dispute with one of its suppliers relating to contract matters. Management has chosen to proceed with mediation to resolve this issue amicably. No statement of claim has been filed and the Company is not able to estimate a potential loss exposure, if any.

CV Technologies Inc.

Notes to the Consolidated Financial Statements

Years Ended September 30, 2007 and 2006

All amounts are in Canadian dollars, except where noted

25. Cyclical nature of business

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

26. Comparative figures

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the current year consolidated financial statements.

27. Subsequent events

a) In October 2007, the Company was granted full access to the demand operating line of credit up to a maximum of \$10,000,000 upon full execution of the agreement.

b) In November 2007, the Board of Directors approved management's proposal to modify the Company's international structure. In 2008, management intends to simplify the corporate structure with the formation of a new Swiss company and dissolution of COLD-fX Pharmaceuticals (USA) Inc. and fX Life Sciences International GmbH. The potential costs of restructuring have not yet been estimated by management.

c) Between November 23, 2007 and December 11, 2007, the Company authorized and is committed to issuing 1,310,000 options from treasury to employees and certain consultants. Options granted to employees will have an exercise price based upon the date of grant. The options vest over a period not to exceed five years from the date of grant and/or upon the achievement of specified performance targets.